Canadians working together to build a stronger Canada

Canadians working togethe

This year's graphics

CDC creates vigorous Canadian companies that make up one of the building blocks from which a stronger Canadian economy is being fashioned. The graphics of this Annual Report symbolize how our multi-faceted investments fit together to form that block.

This report was composed on an AES word processor by a typist who learned how to operate the equipment in only a few hours. Type was then set automatically by computer from the AES-produced magnetic disc. Total savings: countless hours of typing and typesetting time and several thousand dollars. For more information on the role of AES Data Ltd. in the office of the future, see page 19.

o build a stronger Canada

Canada Development Corporation

CDC is a unique mix of public and private investment through which Canadians can work together to build a better future. The Corporation invests in strong, competitive Canadian-based industries and thus provides an opportunity for Canadians to employ their savings in the vigorous development of profitable enterprises. Although the initial share subscription came from the federal government, the Corporation was specifically designed to operate in the private sector from which it has raised all its funds since 1974. Individual Canadian investors and institutions now own 34% of CDC and, as additional shares are issued to finance the Corporation's growth, this ownership will move towards the 90% level envisaged in the founding legislation.

The Corporation's objectives are: to develop and maintain strong, Canadian-controlled and -managed corporations in the private sector; to widen the investment opportunities open to Canadians; and to operate profitably and in the best interests of all the shareholders. To reach these objectives, CDC generally acquires effective control positions and builds up strong managerial, entrepreneurial, technical and research talents in those companies so that they attain their maximum profitability and growth.

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HEAD OFFICE: 2272 Granville Square, 200 Granville Street, Vancouver, British Columbia, V6C 1S4

Pour obtenir l'édition française du présent rapport, on est prié d'écrire au Secrétaire, Corporation de développement du Canada, Suite 2272, 200 rue Granville, Vancouver, Colombie-Britannique, V6C 1S4.

Major Investments at a Glance

CANADA DEVELOPMENT CORPORATION

PETROCHEMICALS

Petrosar Limited
60% CDC-owned
Total Assets
$804.5 million

North America's first integrated petrochemical refinery producing quality feedstocks for chemicals and plastics manufacturers.

Polysar Limited
100% CDC-owned
Total Assets
$909.9 million

A world leader in the manufacture and sale of synthetic rubber, latex, chemicals and plastics with plants or offices in 16 countries.

MINING

Texasgulf Inc.
34.4% CDC-owned
Total Assets
US$1,648.1 million

A major diversified mining and natural resources developer of base metals, fertilizers and chemicals with growing activities in oil and gas.

CDC's long-term investments at year-end totalled $782.3 million (valued at cost). By sector, they are found in the following proportions:

Petrochemicals	22.0%
Mining	46.1%
Oil and gas	15.8%
Life Sciences	5.7%
Electronics	8.5%
Venture and Expansion Capital	1.9%

OIL & GAS

CDC Oil & Gas Limited
100% CDC-owned
Total Assets
$222.5 million

A significant Canadian-controlled oil and gas exploration and production company with interests in the development of conventional and unconventional energy sources.

LIFE SCIENCES

CDC Life Sciences Inc.
100% CDC-owned
Total Assets
$154.2 million

A management company enhancing Canada's presence in medical research through a group of innovative companies engaged in the discovery, development and marketing of pharmaceuticals, biologicals, fine chemicals and life sciences contract research services. Companies in the life sciences group include Connaught Laboratories Limited (100%), Bio-Research Laboratories Ltd. (100%), Raylo Chemicals Limited (100%), A/S Dumex (75%), and Omnimedic Inc. (70%).

ELECTRONICS

CDC Data Systems Limited
100% CDC-owned
Total Assets
$180.5 million

CDC's holding company in electronics. The company currently holds CDC's 64% interest in AES Data Ltd., a world leader in the manufacture of word processing systems and related products. CDC also owns 57% of Ventek Limited, a distributor of dispersed data processing equipment and software.

VENTURE AND EXPANSION CAPITAL

CDC Ventures Inc.
100% CDC-owned
Total Assets
$18.6 million

A newly-formed vehicle company managing CDC's venture and expansion capital companies which provide equity financing to small and medium-size businesses at the conceptual or development stage. CDC Ventures' holdings include Innocan Investments Ltd. (37%), Ventures West Capital Ltd. (49%), Venturetek International Limited (32%) and CanWest Capital Corporation (35%).

Highlights

	1979	1978
	(millions of dollars)	
Total revenue	**$1,532.6**	$1,305.9
Net income	**113.0**	36.4
Cash flow	**260.4**	133.7
Working capital	**430.7**	412.6
Total assets	**2,767.9**	2,537.8
Shareholders' equity	**825.0**	730.9
Research & development expenditures	**35.5**	26.6
Earnings per common share	**$3.08**	62.0¢
Return on common equity	**17.9%**	4.0%

- **Net income increases 211%; operating cash flow, 95% (Page 4)**
- **Total revenue exceeds $2 billion, up 54% (Page 8)**
- **Return on common shareholder equity rises to 17.9% (Page 9)**
- **Petrosar production up, operating cash flow significantly higher (Page 24)**
- **Polysar's earnings quadruple (Page 25)**
- **Texasgulf net income rises by 173% (Page 26)**
- **CDC Oil & Gas expands exploration activities again (Page 27)**
- **AES continues remarkable sales growth (Page 29)**

Report of Directors

To our shareholders:

In previous years, we have stressed that your Company builds for the future. We deliberately emphasize large-scale development projects which offer better-than-average rates of return in the long term. We do so because we believe that there are unique opportunities in such an approach — and because realized earnings are often much higher than those from less complex and shorter-term investments.

Our results last year showed the validity of this philosophy. Earnings rose by more than 200%; operating cash flow almost doubled to $260.4 million; and fully diluted earnings per common share were $2.23, a return on common shareholders' equity of 17.9%, which comfortably exceeded our target of 15%.

The biggest contributor to this growth in profits was Polysar, which has invested more than $300 million in capital projects over the seven years of our ownership. These dollars have gone to increase production and emphasize higher-value-added petrochemicals. Through alert management at a time when world feedstock markets were marked by uncertainties, Polysar almost trebled its contribution to our earnings. Texasgulf also made a marked contribution to our earnings by capitalizing on strong world demand that it was able to meet because of a forward-looking investment program undertaken despite depressed markets in recent years. Perhaps, however, our investment approach to long-term growth was best demonstrated at Petrosar which operated very satisfactorily in 1979, supplied Polysar and its other shareholders with large amounts of quality feedstocks and generated an operating cash flow of more than $50 million.

Acquisitions

CDC itself made no major new acquisitions during the year, but good progress was made in positioning the Corporation to enter new growth industries in 1980 and beyond. Among our existing holdings, however, our favourable view of global

market conditions in metals and chemicals led us to raise our ownership of Texasgulf from 30.7% to 34.4% through market purchases as well as continued participation in its dividend reinvestment program.

In line with our conviction that Canada can succeed in high-technology businesses, and also reflecting our desire to balance our portfolio between resource and manufacturing industries, we entered into a joint venture to complete development of an economical high-speed non-impact printer having widespread applications. Assuming that the project is successful, the printer will be manufactured in Canada by us and our partner, Dennison Manufacturing Company. The aim of this venture is to strengthen our position as a world leader in electronic office equipment.

Expansion

In a dynamic, volatile world such as ours, continued sound and well-planned capital investment is a prerequisite for success. No company can lead the way in innovation and earnings or meet changing market and technological conditions without it. To enhance productivity and sustain the high growth rate which has characterized your Company throughout its existence, CDC consolidated companies invested $119 million in capital improvements and expansion. Of this amount, Polysar invested $58 million in new manufacturing facilities, including halobutyl plant capacity in Sarnia, while CDC Oil & Gas spent $41 million on exploration and development work that included initial investment in a tar sands pilot project.

A second vital ingredient for long-run success is a commitment to research and development that creates new products and processes. At CDC, we believe that research and development must be commercially directed. During 1979, an outlay of $35.5 million resulted in such advances as an important new animal vaccine at Connaught Laboratories, expansion of the AES line into shared logic systems, and process and product improvements at Polysar, all of which should be reflected in higher earnings for many years to come.

Among our associated companies, which share this growth orientation, Texasgulf made impressive progress on its massive mine and concentrator expansion program at Timmins. Work on the related copper smelter and refinery was accelerated and the completion date has been advanced to mid-1981. The company also began preliminary development work on the nearby Owl Creek gold prospect.

Our venture and expansion capital group continued to add new holdings and strengthen their existing assets. CanWest Capital widened the range of its financial services companies, Ventures West expanded its minerals interests, Innocan invested in high-technology microprocessing applications, and Venturetek continued to develop its low-cost cattle forage subsidiary.

For several years we have operated the largest pool of venture and expansion capital funds in Canada and derived considerable satisfaction from our successes in this field, including development of AES and Wordplex. To ensure that your Company maintains its leading position in this dynamic activity, a new wholly-owned subsidiary, CDC Ventures Inc., was formed and staffed in 1979 to manage and expand our venture capital activities. By year-end, CDC Ventures had committed to additional participation in CanWest Capital and Innocan Investments and had begun negotiations which are expected to culminate in the establishment of several new venture capital affiliates throughout Canada.

Financing

Our 1979 earnings were more than adequate to meet our financial needs without turning to the equity markets. Working capital at year-end stood at $431 million with cash and short-term investments accounting for $211 million. In view of this strong financial position, the timing of our next equity issue, as we said last year, will depend on the pace of our acquisition program and conditions in financial markets.

The range of financing possibilities open to us has now widened considerably as a result of the start of

public trading in CDC common shares. This was brought about by distribution to Class B preferred shareholders of one common share as a bonus for each preferred share held. The directors decided to advance the issue date of these common shares by some 11 months to permit earlier development of a market which gives Canadians an additional way of participating in the capital growth of CDC.

The existence of this market has enabled us to offer our shareholders a dividend reinvestment program in common shares. Under this new plan, Class B preferred shareholders may automatically reinvest their dividends in common shares issued from treasury at 95% of the average market value. In addition, the plan allows Class B preferred and common shareholders to purchase up to $3,000 of common shares per quarter at average market price. There are no brokerage or service charges in either instance, and we hope that many shareholders will find this new service a convenient way to add to their holdings in CDC.

Outlook

Canada at the beginning of 1980 is a land of strange paradoxes. On the one hand, there are the assets of talented management, a highly-skilled labour force, a relatively favourable energy situation, abundant resources and a competitive manufacturing sector. On the other hand, it sometimes seems that we are bent on a course of consuming our heritage and borrowing against our future instead of investing in our opportunities.

We must make a choice. One option is to control inflation and promote savings, risk-taking and innovation. Another option is to continue down the deceptive and beguiling path of mindless consumption which pays little heed to tomorrow. We have confidence that Canadians will take a longer-term view of their prospects and that increased productivity can be brought about by foregoing small amounts of today's consumption in favour of investment which will yield improved output tomorrow.

At CDC, we strongly believe that opportunities exist for profitable investments here in Canada, not just in resources but also in high-technology, high value-added secondary manufacturing. During the next five years, therefore, CDC and its group of companies expect to invest billions of dollars to expand their activities. We believe that this is the best way to reward our common shareholders — investing for the future so that their capital shows a worthwhile appreciation over the years.

While economic uncertainties and the world energy situation will hardly lead to 1980 being classified as a vintage year, we remain positive about the outlook of our group of companies. In petrochemicals, Polysar is well-positioned to continue its strong performance on the basis of greater sales of its high-margin specialty products and expanded production capacity. Petrosar, with increased operating flexibility and reliability, should once again significantly improve its results and become a self-sufficient entity. In mining, Texasgulf should benefit from higher average prices and continuing strong demand, although metal prices are likely to remain volatile. We do not expect significant changes in the contribution of CDC Oil & Gas in the light of its heavy expenditures for exploration and development of future reserves, although these expenditures will add to earnings in future years.

Our electronics division should record dramatic sales growth once again and increase its profitability significantly, although continued investment in marketing, research and new products will keep profit margins below the level we expect in the medium-term. In the life sciences group, increased sales and new products and services should bring about a major improvement in earnings. And, in venture capital, we look to further expansion.

Looking farther ahead, acquisitions in new and existing industries, expanded production capacity and new research and development achievements should lead to a much higher level of earnings. While the business cycle will always be with us, we hope that these

earnings will be less cyclical as the result of better balance in the portfolio and more focus on technical products. In summary, we are planning for your company to continue to grow vigorously, building a stronger Canada for Canadians.

Directors, Staff and Shareholders

Late in the year, Dr. Grant L. Reuber joined our Board as an ex officio member upon his appointment as Deputy Minister of Finance. We welcome him and express our warmest thanks to his predecessor, Dr. William C. Hood, who left this position to become The Economic Counsellor of the International Monetary Fund in Washington, D.C.

The effort and dedication of our small, hard-working staff, of the management and of the thousands of employees of our many companies are assets which do not show on the balance sheet. On your behalf, we express our appreciation to all these members of the CDC family who contributed so much of themselves in turning the Corporation's exciting potential into such satisfying results.

We would like to conclude our report by thanking you, our shareholders, for your support in working and building with us for the future of our company and our country. We believe that our venture together will continue to be an exciting and rewarding one.

Respectfully submitted on behalf of the Board,

A. John Ellis
Chairman

H. Anthony Hampson
President and Chief Executive Officer

March 20, 1980

Financial Review

Building strong, growth-oriented companies requires financial resources on a large scale. Funds for growth and development come from the Corporation's earnings in addition to debt and equity financing by CDC itself and by the individual companies within the group. Since earnings are fundamental to raising capital, we turn first to a consideration of the 1979 income statement.

Consolidated revenues grew to $2,014.9 million from $1,305.9 million in 1978. Much of this increase was attributable to significantly greater revenues for Polysar and the inclusion of a full year's revenues for both Petrosar, which operated commercially for only three quarters of 1978, and AES Data, acquired in August, 1978. Revenue by industry sector was as follows:

	1979	1978
	(millions of dollars)	
Petrochemicals	**$1,629.0**	$1,062.8
Life sciences	**132.3**	132.3
Oil and gas	**51.0**	43.0
Electronics	**153.5**	44.6
	1,965.8	1,282.5
Interest income	**28.4**	13.1
Other income	**20.7**	10.3
	$2,014.9	$1,305.9

Increases in revenues were accompanied by relatively reduced cost of sales which declined to 76% of total revenues from 79% the previous year.

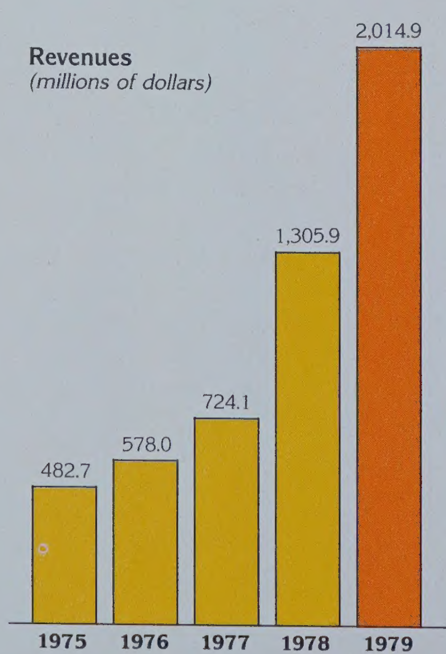
CDC's consolidated and affiliated companies contributed to our net earnings as follows:

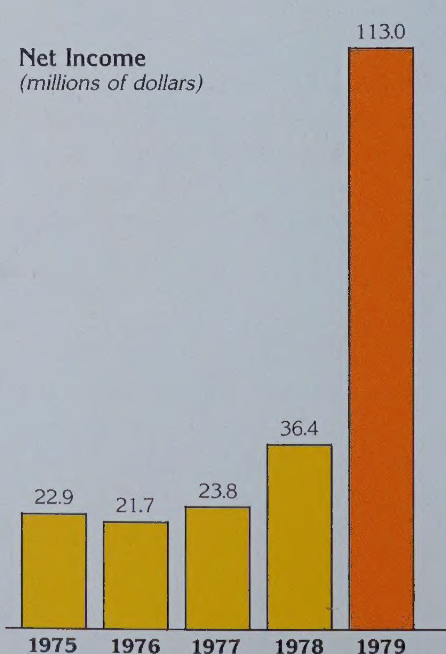
	1979	1978
	(millions of dollars)	
Petrosar Limited	**$(10.9)**	$(13.9)
Polysar Limited	**68.7**	24.2
Texasgulf Inc.	**45.8**	13.4
CDC Oil & Gas Limited	**10.6**	10.9
CDC Life Sciences Inc.	**4.2**	4.1
CDC Data Systems Limited	**1.6**	1.3
Venture and Expansion Capital	**(3.4)**	—
CDC	**(3.6)**	(3.6)
Net Income	**$113.0**	$ 36.4

Petrosar earned an operating profit and generated a positive cash flow which increased from $9.5 million to $53.8 million because of greater sales volume and improved margins. However, as anticipated, there was a deficit per common share after paying financing costs. Polysar, benefitting from higher prices and sales volumes, more than doubled its contribution for a second consecutive year.

Texasgulf's earnings were up sharply on the strength of firm demand and higher prices for all products. This, coupled with CDC's purchases of additional Texasgulf shares during the year, was responsible for a much larger contribution by that company to CDC. CDC Oil & Gas recorded higher revenues and cash flow but greater costs and income taxes resulted in slightly lower net income. The operating contribution of CDC Life Sciences also improved but, because of losses brought about by a labour dispute at Omnimedic, the goodwill relating to that company was written off. The electronics companies made only a small contribution to our profit because of sharply higher costs for research and market development despite very vigorous growth in sales. And the negative contribution of the venture capital operations, despite increases in their total net worth, reflects the lack of major divestitures as well as operating losses at PoP Shoppes International (Venturetek) and Universal Subscription Television (CanWest).

After payment of preferred dividends, net income per common share was





significantly higher at $3.08 in 1979 compared with $0.62 in 1978. Fully diluted, earnings per common share were $2.23. Return on common equity of 17.9% surpasses the corporate objective of a 15% return on common equity well ahead of schedule; return on common equity in 1978 was 4.0%.

The increase in cash flow from operations — which measures the ability of the CDC group to generate the internal funds to sustain growth — was particularly gratifying, reaching $260.4 million from $133.7 million in the previous year. After payment of dividends of $17.3 million on CDC's Class A and B preferred shares, consolidated retained earnings rose to $258.2 million from $164.1 million a year earlier.

In addition to the substantial funds generated by operations, CDC and its affiliated companies raised additional funds through the issuance of $114.4 million in long-term debt. Of this amount, $18.4 million was raised by Polysar, $68.8 million by CDC Oil & Gas, $9.6 million by CDC Life Sciences and $17.6 million by CDC Data Systems.

Funds generated were used to reduce existing long-term debt by $75.1 million, to further acquisition programs, to make capital investments, for payment of $51.8 million of dividends to minority shareholders in Petrosar, Polysar and some life sciences companies, and to increase working capital.

Additional shares of Texasgulf were purchased for $50.8 million, raising CDC's holding in that company to 34.4% on a fully diluted basis from the 30.7% held at the beginning of 1979. During the year, CDC also determined that the final payment to be made to former owners of AES Data on the basis of the company's earnings since its acquisition by the Corporation is approximately $34.4 million. Because of CDC's substantial ownership of Innocan and Venturetek, from which AES and Wordplex were purchased, the net cost to CDC of this final payment will be reduced to approximately $21.7 million.

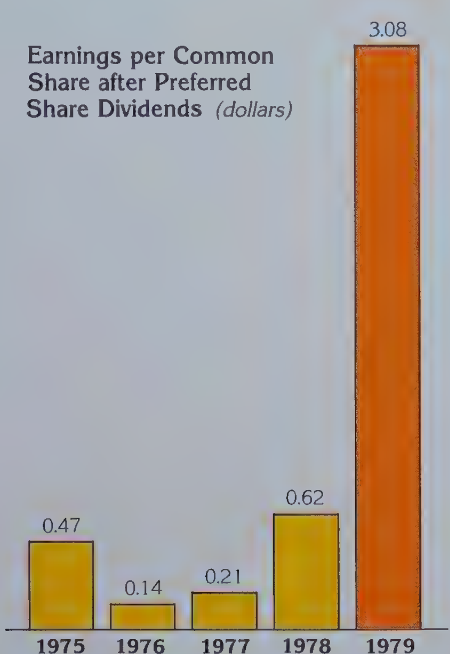
Subsidiaries of CDC invested $119.2 million in additional properties, plants and equipment. Some of the items included $40.8 million invested in land acquisition, exploration and development by CDC Oil & Gas; $53.2 million employed by Polysar to add to and improve production capacity, primarily in its specialty rubbers operations; $6.9 million to modify and improve Petrosar's facilities; $8.4 million spent by CDC Life Sciences companies for capacity-expanding projects such as provision of new research facilities at Bio-Research and additional production capacity at Connaught; and $9.7 million in new assembly and warehousing space purchased by CDC Data Systems.

Not included in the above figures are expenditures by our affiliated venture and expansion capital companies and Texasgulf. The venture and expansion capital group invested $31.0 million for a wide range of enterprises, including specialized microprocessor systems and financial services businesses. In addition, Texasgulf recorded 1979 expenditures of US$165.0 million, of which approximately $51.1 million was spent at the Kidd Creek mining and processing facilities.

On an unconsolidated basis, the Corporation's revenues rose substantially from $40.4 million to $97.7 million, reflecting higher interest income on short-term investments and increased dividend payments from subsidiaries and affiliated companies. Operating expenses were greater as a direct result of the Corporation's enhanced activities and larger size. Interest expense of $13.9 million reflects both the higher rates which prevailed during 1979 and a full year's interest on the Corporation's 1978 Swiss franc borrowings. Unconsolidated working capital at year-end stood at $83.8 million while retained earnings were $89.3 million, some five times annual dividend requirements.

Returning to the consolidated results, at the end of 1979, working capital stood at $430.7 million, retained earnings were $258.2 million and total assets amounted to $2.8 billion.

The Company thus ended the year in a strong position and is well prepared for further growth both through adding to existing holdings and through acquisition of new assets.



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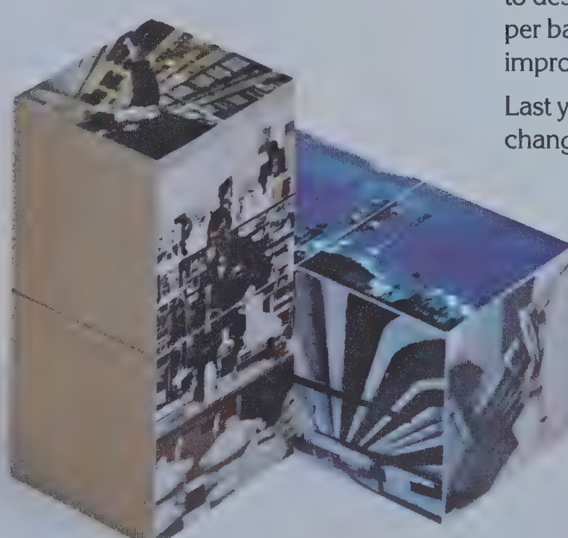
Petrochemicals

Through its two petrochemical investments — Petrosar Limited and Polysar Limited — CDC plays an important role in the upgrading of Canada's natural resources into finished products. Petrosar, Canada's only world-scale integrated petrochemical refinery, was constructed to supply high-quality feedstocks to Polysar and the other two partners in Petrosar. The primary products of Petrosar include ethylene, benzene, butadiene and other olefins and aromatic petrochemicals as well as gasoline and light and residual fuel oils as co-products. Polysar transforms these primary petrochemicals into synthetic rubbers, latex, styrene and thermoplastic resins. Petrosar has its operations in Sarnia while Polysar also has manufacturing subsidiaries in Europe and the United States, although its principal manufacturing and research activities are carried out in Canada.



General Review

Petrosar Limited
(60% CDC-owned)

In recent years, Canadian manufacturers of petrochemicals have faced shortages of high-quality feedstocks at prices competitive with those paid by their competitors in the United States. Petrosar — a joint venture of CDC/Polysar, Du Pont Canada Inc. (20%) and Union Carbide Canada Limited (20%) — resolves the serious problem of supply for its shareholder-customers, all of whom have made significant investments in expansion of their own petrochemical-using facilities in recent years.

Petrosar began commercial production during the second quarter of 1978. Consequently, it remains a young facility which was not expected to realize its full performance capability during 1979. Nonetheless, the company did show a significant, if not yet fully satisfactory, operating profit in 1979, improving from a small loss in the previous year. Physical operations and reliability continued to improve in line with expectations. The various production units moved closer to design capacity and product yields per barrel of oil input continued to improve.

Last year's report noted the dramatic changes in crude oil pricing and

supply which have substantially altered the petrochemical environment since Petrosar was designed. In particular, the price of crude oil has risen sharply and Canada now possesses surplus fuel oil refining capacity rather than the shortage expected at the time of Petrosar's design. During 1979, a major reassessment of Petrosar's existing structure was undertaken by the company and its shareholders to determine how it might best continue to play a leading role in the petrochemical industry. This work will be completed in 1980 and is expected to result in a program to reduce Petrosar's production of heavy fuels products; by adding condensate, its consumption of crude oil has already been reduced from the original design of 170,000 barrels per day to less than 110,000 barrels per day with no reduction in the production of petrochemical products. Over the medium term, such upgrading of residual oil should result in a much more efficient use of Western Canadian crude oil and increased opportunity for natural gas in Eastern Canadian fuel markets.

Polysar

(100% CDC-owned)

1979 was characterized by strong demand in all of Polysar's businesses. The company was able to capitalize on these favourable market conditions because of its excellent feedstock supply position, continued emphasis on marketing support, and development of new and improved applications for Polysar products. The results were record sales and record earnings.

The rubber and latex divisions experienced a continuing improvement in product mix. A higher proportion of sales revenue is now derived from high-technology, high-margin specialty products such as halobutyl rubbers. (Halobutyl rubbers include chlorobutyl and bromobutyl, which are primarily for the inner liners and sidewalls of premium-grade radial tires.) And a major factor in 1979 earnings was the highly efficient operation of its world-scale styrene plant during a period of substantially improved product margins.

Polysar remained active in research and development during 1979, with some $16 million spent on R&D activities to develop new products, identify new applications for existing products and improve production processes.

The company's strategy of aggressive expansion of production capacity resulted in the addition of new chlorobutyl and bromobutyl capacity. A five-year growth program was developed which involves planned capital expenditures of some one billion dollars and will bring about a major enlargement of Polysar's businesses. As part of that five-year plan, the decision has been made to proceed with a new butyl plant and related facilities in Sarnia that are expected to cost about $180 million.

In addition, the North American formed products group was sold, reflecting a company decision to concentrate on investments having a greater impact on long-term margins and growth; a company-wide program to generate energy efficiencies continued effectively throughout the year; and the on-going labour relations and quality of work-life programs at the Sarnia site contributed to a significantly improved manufacturing operation.

For Financial Review, see page 24.

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General Review

Texasgulf

(34.4% CDC-owned)

World markets for all Texasgulf's products strengthened dramatically during 1979. This strong demand contributed to near-capacity operation of all the company's major production facilities, expanded sales volume and increased margins. The company was able to take advantage of these desirable conditions because of a vigorous capital investment program carried out in the face of depressed markets in preceding years.

Metals

Texasgulf's Canadian-based minerals operations experienced substantial demand for all products, leading to higher prices than had been forecast for the year. Production was increased and inventories were reduced.

The dramatic improvement in market conditions from the depressed levels of 1975 and 1976 led to acceleration of the $400 million expansion of the Timmins operation. Work progressed well on the 65,000-ton-per-year copper smelter and refinery which is now nearing completion and expected to commence full operation by mid-1981. Expansion of the mine,

Mining

Since 1975, CDC has been playing an important role in the development of Canada's mineral resources through its significant share position in Texasgulf Inc., a major diversified international mining and natural resources company with substantial interests in Canada where it produces zinc, copper, silver, lead, tin and cadmium in the form of concentrates and metals plus sulphur, potash and oil and gas. Texasgulf's best-known Canadian operation is the giant Kidd Creek mine at Timmins, Ontario. During 1979, CDC increased its ownership of Texasgulf from 30.7% to 34.4% on a fully-diluted basis.

which will raise production from 3.6 million tons of ore per year to about 5 million tons per year, also moved ahead well.

Exploratory development work began on the Owl Creek gold prospect located near the Timmins metallurgical site and, depending on the outcome of this work, a production decision may be made in 1980.

Chemicals

As demand for all Texasgulf chemical products improved dramatically through the year, prices moved up accordingly. Largely because of strong markets for fertilizers, sulphur was in particularly great demand. Production records were set by the Lee Creek phosphate operations in 1979 and a decision was made to increase production capacity by roughly 50% on a staged basis by 1982. In soda ash, healthy demand conditions enabled production to approach capacity and initial sales were made in Europe. Production rose at the Saskatchewan Allan Potash Mines site where Texasgulf and its 60% partner, the Potash Corporation of Saskatchewan, have agreed on an expansion program; Texasgulf's share of the capital required for this project is $3 million.

Oil and Gas

Production of oil and gas remained relatively unchanged during the year as Texasgulf concentrated on developing reserves and expanding its land position in the Gulf of Mexico. $51.1 million was spent for exploration and development, compared with $22.2 million in 1978. During 1979, Texasgulf participated in drilling 65 wells. A total of 33 wildcat wells — 12 in Canada and 21 in the U.S. — were drilled with 10 resulting in oil or gas finds and 13 others being evaluated at year-end. A total of 32 development wells were drilled — 14 in Canada and 18 in the U.S.

Minerals Exploration

In 1979, Canada and the United States received primary attention in the Texasgulf mineral exploration program with the principal Canadian areas of interest in New Brunswick, Ontario, the Northwest Territories and British Columbia. American exploration was conducted in several states.

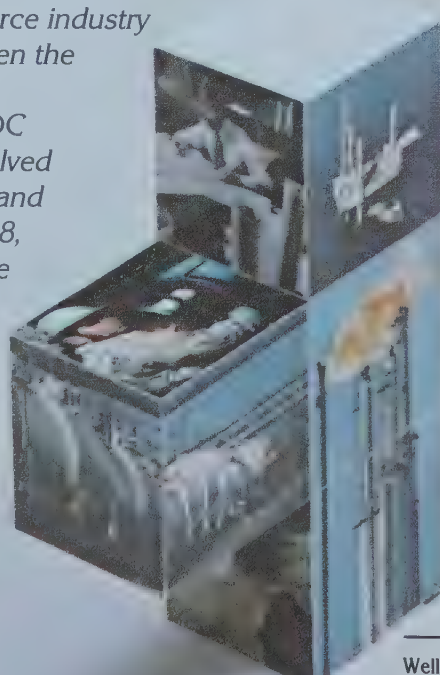
Reserves

Texasgulf's large reserves include zinc-copper-silver ore in Ontario; recovered sulphur in Alberta; potash in Saskatchewan and Utah; oil and gas in Canada and the United States; phosphate in North Carolina; Frasch sulphur in Texas and Mexico; and trona in Wyoming.

For Financial Review, see page 26.

Oil and Gas

In 1975, CDC acquired the Canadian oil and gas properties of a major American oil company and formed CDC Oil & Gas, a wholly-owned CDC subsidiary, gaining an important position in this vital resource industry which has traditionally been the preserve of non-resident-controlled companies. CDC Oil & Gas is primarily involved in oil and gas exploration and production but, since 1978, has also participated in the evaluation of uranium properties. Producing properties are mainly located in Western Canada while exploration acreage is found in Western Canada, the Beaufort Sea, the Eastern Arctic and offshore Labrador areas.



General Review

CDC Oil & Gas

(100% CDC-owned)

1979 brought a continued dramatic expansion in the company's aggressive exploration and development program. Since its acquisition by CDC in 1975, the company's exploration and development budget increased from virtually nothing in 1975 to $41 million in 1979. During 1979, 340,000 gross acres (167,000 net acres) of exploration and production leases in Alberta, Saskatchewan and British Columbia were acquired at a cost to the company of $15.7 million. Details of the company's land holdings are found in the accompanying table.

Exploration Land Holdings

(December 31, 1979)

Region	Total Acres Gross	Net
Alberta	1,160,150	460,900
British Columbia	439,350	190,900
Saskatchewan	203,700	174,150
Manitoba	10,000	8,000
Federal	4,531,850	650,850
Total Canada	**6,345,050**	**1,484,800**

The company's drilling activity consisted of the following:

	1979 Gross	1979 Net	1978 Gross	1978 Net	1977 Gross	1977 Net
Wells Drilled						
Oil	**44**	**6.3**	7	1.5	6	1.8
Gas	**46**	**13.9**	96	24.8	33	7.9
Service	**7**	**0.1**	7	0.1	—	—
Dry and Abandoned	**28**	**16.8**	12	3.1	9	5.9
	125	**37.1**	122	29.5	48	15.6

Again in 1979, domestic demand for natural gas was substantially below the industry's production capacity. Despite the restricted natural gas market, however, total sales volume did increase to 4,375,000 net equivalent barrels from 4,008,000 net equivalent barrels in 1978. (Net equivalent barrels are calculated on the basis of barrels of crude oil, condensate and natural gas liquids plus natural gas converted on the basis of 6 Mcf equalling one barrel of crude oil.)

Reserves

The company's 1979 drilling program resulted in additions to reserves of 5,363,000 net equivalent barrels. After taking into account 1979 production of 4,380,000 net equivalent barrels and engineering downward revisions of 1,548,000 net equivalent barrels, the proven and probable reserves at year-end were 65,187,000 net equivalent barrels. This figure was 565,000 net equivalent barrels less than the 1978 total, as shown in the table of Proven and Probable Reserves.

Proven and Probable Reserves *(after royalty)*

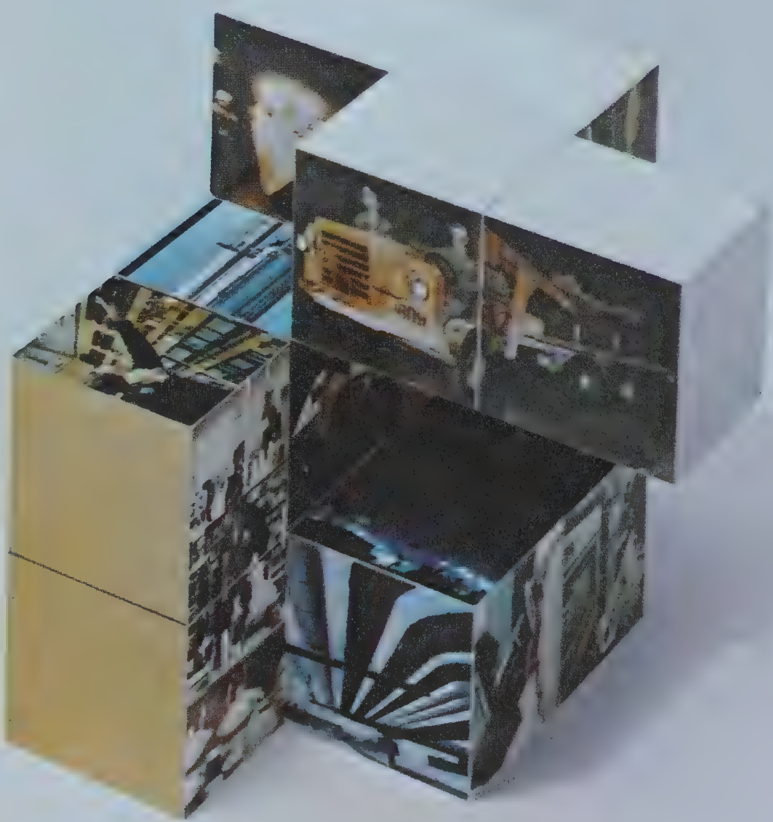
	Crude Oil (000's of Barrels)	Condensate and NGL (000's of Barrels)	Natural Gas (Millions of Cubic Metres)	Total Net Equivalent Barrels (000's of Barrels)
Proven Reserves at December 31/78	10,083	5,747	276,617	61,934
1979 Additions	1,995	37	19,983	5,363
1979 Production	1,145	408	16,966	4,380
1979 Revisions	1,005	(82)	(14,790)	(1,548)
Proven Reserves at December 31/79	11,938	5,294	264,844	61,369
Probable Reserves at December 31/79	0	113	22,246	3,818
Proven and Probable Reserves at December 31/79	**11,938**	**5,407**	**287,090**	**65,187**

Tar Sands

In addition to the reserves noted above, the company holds a 51% interest in an Athabasca tar sands lease. During 1979, it was decided to proceed with a $30 million pilot project to assess the feasibility of an *in situ* recovery program. This project, scheduled to take three years to complete, involves a new technology which, if successful, could greatly reduce the capital costs currently associated with tar sands development.

Uranium

Also in 1979, CDC Oil & Gas participated in evaluation of six uranium prospects located in British Columbia and Saskatchewan. Results from these activities encouraged the company to continue its exploration program in 1980.



For Financial Review, see page 27.

Life Sciences

CDC Life Sciences Inc. — the only major Canadian-controlled firm in the important life sciences industry — controls CDC's investments in an internationally-oriented group of companies. Members of CDC's life sciences group are currently active in four main areas — biologicals, pharmaceuticals, life sciences contracting and fine chemical manufacturing — and are working to develop new opportunities in other life science fields such as biotechnology.

General Review

Connaught Laboratories Limited

(100% CDC-owned)

One of the world's leading biologicals companies, Connaught produces a wide range of human and animal viral and bacterial vaccines and is Canada's only producer of insulin and blood fractions. The company is North America's only producer of the increasingly-popular Salk inactivated polio vaccine in addition to being a leading manufacturer of Sabin oral polio vaccine. A staff of more than 700 is employed at Connaught's research and production facilities in Toronto.

1979 saw increased profitability and growth in major markets. Export sales, from both Canada and the company's vaccine facility in Swiftwater, Pennsylvania, rose markedly as did U.S. sales of kits for hepatitis testing. The improved volume from vaccines and hepatitis kits offset losses on animal health product sales resulting from severe price competition by foreign producers.

Late in the year, following an intensive development program, Connaught introduced a significant new vaccine for prevention of neo-natal diarrhea (scours), a pervasive and often fatal disease of calves. This vaccine, which has exciting market potential, was developed in conjunction with the

Saskatchewan-based Veterinary Infectious Diseases Organization (VIDO). At year-end, the new vaccine was available only in Canada; however, sales to the United States are expected to begin before the end of 1980.

Bio-Research Laboratories Ltd.
(100% CDC-owned)

The only Canadian company providing contract research in toxicology, Bio-Research is also winning a substantial share of the American market and now derives the majority of its revenues from the United States and Europe. Bio-Research's clients include governments and private firms in the pharmaceutical, cosmetic, pesticide, chemical and food industries.

1979 was highlighted by upgrading of capacity along with excellent sales growth which consolidated the company's position as a leading North American supplier of contract toxicology research. $1.5 million was invested in additional scientific equipment for the Senneville, Quebec, laboratories, bringing capital investment since 1977 to $7 million and providing the company with one of the world's finest facilities. Additional scientific personnel were recruited and trained to meet the growing demand for Bio-Research's services.

Raylo Chemicals Limited
(100% CDC-owned)

Edmonton-based Raylo conducts both contract research work and custom synthesis of specialty chemicals for governments and industry throughout the world.

In 1979, Raylo strengthened its position as a significant supplier of contract chemical research services to the resource industries of Western Canada. Sales of novel and complex specialty chemicals increased and a further plant expansion program was well under way by the end of the year.

A/S Dumex
(75% CDC-owned)

Dumex manufactures prescription drugs, human and animal health products, proprietary medicines and baby foods which are marketed in more than 40 countries in Europe, the Middle and Far East, Africa and South America from its Copenhagen base. The company also distributes Connaught-produced biologicals.

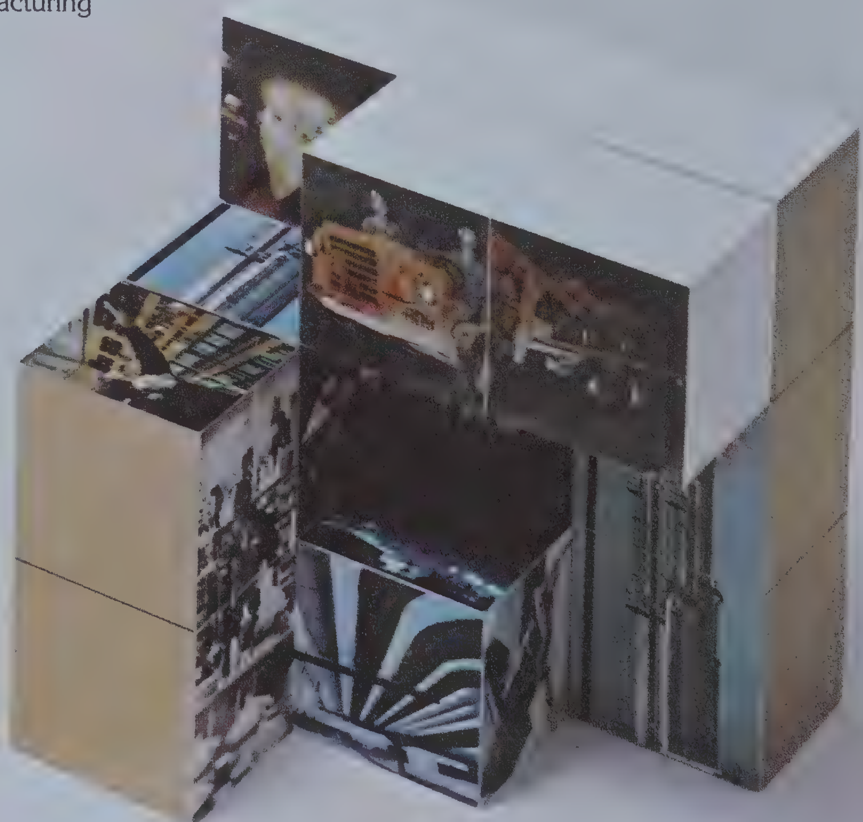
Dumex further expanded its sales of prescription drugs in Scandinavia but political turmoil in the Middle East coupled with continuing trade restrictions in Nigeria and inventory reductions by customers in many markets caused slight declines in both sales and earnings for 1979 compared with 1978. Completion of new dosage form manufacturing facilities marked the final stage in Dumex's five-year program to increase capacity and upgrade facilities to the latest international standards.

Omnimedic Inc.
(70% CDC-owned)

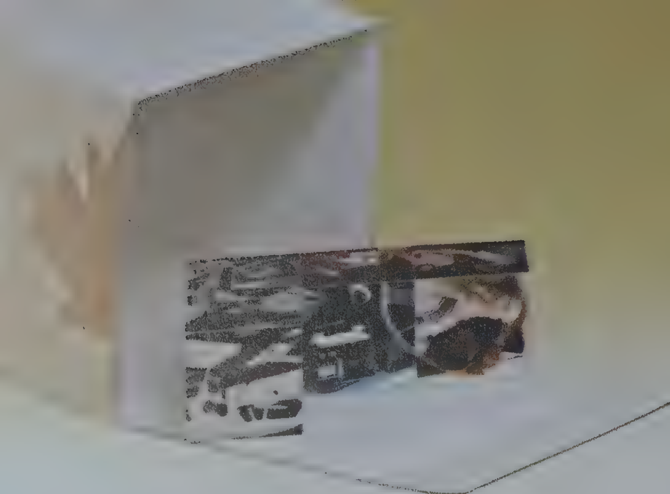
A Montreal-based pharmaceutical company, Omnimedic markets its products across Canada under the name Nordic Laboratories.

Despite volume increases, Omnimedic suffered earnings declines due to serious price erosion on a major product in 1979. However, good progress was made on the development of new licensed products. One new product, a non-steroidal anti-inflammatory drug, was brought to the market while testing was completed on a second product.

For Financial Review, see page 28.

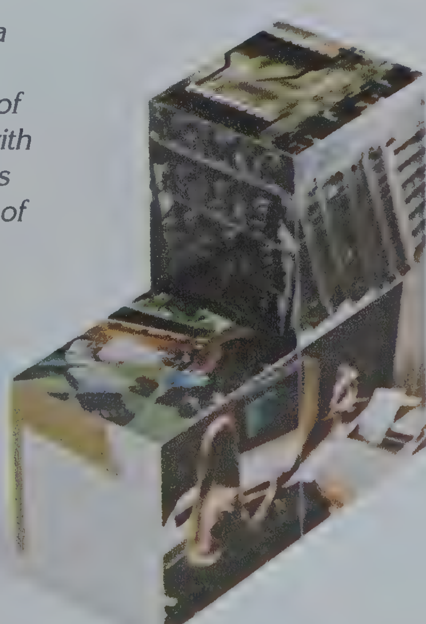


Canadians working togethe



Electronics

In keeping with CDC's policy of investing in industries which combine exceptional growth potential with an emphasis on Canadian technology, the Corporation has become a major participant in the office equipment sector of the electronics industry through CDC Data Systems Limited, a wholly-owned subsidiary. In 1978, CDC Data Systems acquired AES Data Ltd. of Montreal and Wordplex Corporation of California (which was then merged with AES), two rapidly-growing companies manufacturing complementary lines of word processing systems. At the same time, CDC acquired a majority interest in Ventek Limited, a U.K.-based distributor of data processing equipment. And, late in 1979, CDC Data Systems entered into a joint agreement with Dennison Manufacturing Company of the United States to develop and subsequently manufacture a high-speed non-impact printer which will have widespread applications in both word and data processing.



General Review

AES Data Ltd.

(64% CDC-owned)

The remarkable growth story of AES continued throughout 1979 as sales rose by more than 75% for the fourth consecutive year. Despite intense market competition, AES maintained its strong positions as the total market leader in Canada and the United Kingdom, the U.S. market leader in stand-alone systems, and one of the leading names in the European industry. In the United States, AES and Wordplex products are marketed and serviced by Lanier Business Products, an important minority shareholder in AES.

1979 brought important new product additions to both the AES and Wordplex lines. The AES C-20 distributed logic series, introduced late in the year, provides greater depth to one of the world's most sophisticated lines of word processing equipment and software. The new medium-capacity Wordplex 4, introduced in mid-1979, expands the Wordplex line so that the company can now provide its customers with fully compatible and cost-effective equipment ranging from stand-alone units up to 24-station shared logic systems.

In a period of less than five years, AES has grown from a struggling company with annual sales of less than $4 million to become a leader in one of the world's fastest-growing high-technology industries. To meet

the management challenges of such a large corporation, a new President and Chief Executive Officer, formerly senior vice president of a leading multi-national computer manufacturer, was hired late in the year. This important management appointment was one of several significant organizational changes necessitated by continuing rapid growth at AES. These changes included establishment of a European head office in Brussels to co-ordinate distribution activities and product support in continental Europe, acquisition of the company's principal distributors in Belgium and the Netherlands, and opening of a new 100,000 square foot plant in Montreal, bringing the number of AES factories to five.

Ventek Limited
(57% CDC-owned)

Ventek, which holds the United Kingdom distribution rights to distributed data processing equipment manufactured by Datapoint Corporation of the United States, solidified its position as one of the leading U.K. distributors of data processing equipment. The company experienced strong growth in profits and revenues during the year.

What is word processing?

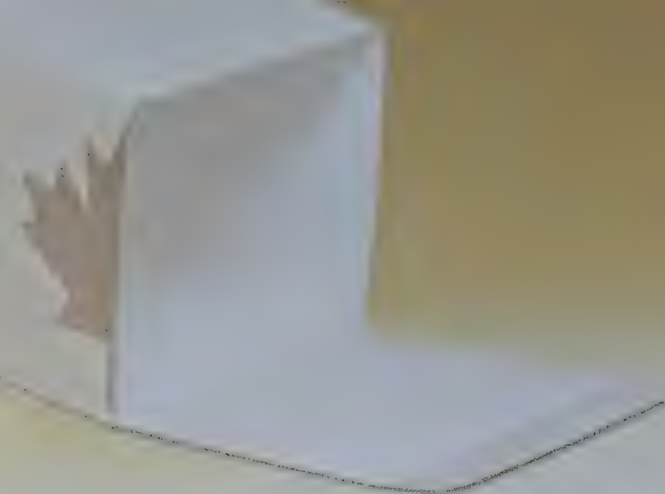
Think, for a moment, of a modern computer, capable of performing the most complicated mathematical calculations in the wink of an eye. Think of how that computer has revolutionized our lives. And think of how exciting it would be to have a machine that could do for words what a computer does for numbers.

The machine already exists. It is known as a word processor and it brings typing into the space age. Word processing operators use a typewriter-like keyboard but the words appear on a television screen rather than on paper. The operator can make any editing changes such as correcting typing errors or even shifting a paragraph from one page to another simply by pushing a few buttons rather than retyping the whole text. A word processing machine will automatically insert personalized names in a run of countless identical letters, justify margins, centre headings and much, much more — all of it done automatically. Changes only take seconds, the machine will print out paper copies at speeds of hundreds (or, in some cases, thousands) of words per minute — and the entire text can be retained forever on magnetic discs.

Word processors come in several forms. The simplest units — called stand-alone systems — consist of a single keyboard, a video screen, a memory unit and a printer. More complex units, known as distributed and shared logic systems, allow several keyboard-video screen terminals to operate either as stand-alone units or as terminals to larger systems sharing centralized memory units and high-speed printers, thereby reducing the cost of each terminal and increasing the performance features of the machine.

Several well-known office equipment companies manufacture word processing systems. However, in Canada and the United Kingdom, the market leader is CDC's AES Data. AES is also the first name in stand-alone systems in the United States and is one of the most prominent names in the European market. CDC makes the office of the future available today.

For Financial Review, see page 29.



Venture and Expansion Capital

Through its wholly-owned subsidiary CDC Ventures Inc., CDC operates Canada's largest pool of venture capital — equity capital invested in smaller business ventures at the conceptual or early development stages. Along with other investors, CDC Ventures holds equity positions in three venture capital companies which, in turn, invest in young smaller firms promising substantial earnings growth in the long term. Like AES Data and Wordplex before them, some of these venture capital-supported firms may eventually become candidates for acquisition by CDC itself. CDC Ventures also participates in CanWest Capital Corporation of Winnipeg, an expansion capital organization which either acquires and participates in the management of medium-size companies with a view towards reorganizing them and improving their profits with the intention of resale or else invests in selected industries for long-term growth and development.

General Review: Venture Capital

Innocan Investments Limited
(37% CDC-owned)

As it has each year since CDC assisted in launching the company in 1973, Innocan experienced excellent growth again in 1979 as gross revenues increased by 45% over the 1978 level to $122 million. This reflected an active investment program which resulted in two new acquisitions and expansion of existing Innocan companies. Cremanco, a manufacturer of micro-processor systems for the restaurant industry, and Genpack, a manufacturer of plastic containers and packaging products, were added to Innocan's portfolio. In addition, Innocan's support of International Systcoms was increased, allowing that company to make one acquisition in each of the energy management and communication systems industries. The company's assets also include Innotech Aviation Limited, a general aviation sales and service firm, Lorcon Incorporated, producer of a wide range of chemical and plastic products, and Sentrol Systems Limited, manufacturer of electronic sensing and control equipment for pulp and paper and metal industries.

Ventures West Capital Limited
(49% CDC-owned)

In 1979, Vancouver-based Ventures West formed a new 80%-owned subsidiary, Ventures West Minerals Limited, to consolidate Ventures West's various interests in mining properties. This year, too, the value of Ventures West's involvement in Frio Oil Ltd. increased substantially. During the course of the year, additional funds were advanced to various operating companies, including the new minerals subsidiary, Freen Screen, manufacturer of a sophisticated rear-projection screen, and International Mobile Data Inc.,

which produces mobile radio-linked computer terminals. The company also laid the groundwork for a new Alberta-based venture capital pool which is expected to commence operations during the second quarter of 1980.

Venturetek International Limited
(32% CDC-owned)

Reorganization of PoP Shoppes International, begun in 1978, continued into 1979. Planning was finalized for consolidation of PoP Shoppes' market positions in Canada and the United States together with introduction of a new "Nectar" product line in Canada during 1980. Also in 1979, Venturetek entered into an agreement to sell the geophysical division of Northway-Gestalt Corporation and provided substantial advances and guarantees to Stake Technology Limited, a subsidiary which manufactures high-energy low-cost cattle forage from waste wood and crops.

General Review: Expansion Capital

CanWest Capital Corporation
(35% CDC-owned)

This Winnipeg company continued its active acquisitions program in 1979. To complement its existing 100% holding in Monarch Life Assurance Company and increase the range of its financial services, CanWest purchased controlling interests in Crown Trust Company and Canreit Advisory Company, a mortgage investment operation. In addition, through its holding in Global Communications Inc., the company obtained Pro Soccer Limited which operates the Toronto Blizzard professional soccer team. To facilitate further acquisitions and permit expansion of existing investments, CanWest finalized a new financing under which its existing shareholder group increased capital committed to the company to $50 million.

Other principal investments of CanWest include ownership of Na-Churs Plant Food Company and Universal Subscription Television Inc.

Financial Review

With the exception of Innocan Investments, which recorded good operating profits in most of its portfolio, the venture and expansion capital companies associated with CDC recorded losses in 1979. The losses were incurred because of development costs and high interest rates, which have a particularly substantial impact on companies in the start-up phase.

The success or failure of venture capital companies is not specifically measured by operating results. Rather, the expectation is that profits will be earned through disposition of the individual investments once they have been developed to a point where they are attractive to other investors. The current portfolio of investments held by our affiliated venture capital companies should return substantial profits to CDC over the next few years.

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Corporate Information

Board of Directors

Philippe de Gaspé Beaubien†
Chairman and
Chief Executive Officer
Télémédia Communications Ltée
Chairman
Beausud Inc.
Montreal, Quebec

Laurent Beaudoin‡
Chairman, President and
Chief Executive Officer
Bombardier Inc.
Montreal, Quebec

Pierre Côté‡
Chairman
Celanese Canada Inc.
Montreal, Quebec

A. John Ellis‡†
Chairman of the Board of the
Corporation
Vancouver, British Columbia

J.P. Gallagher‡
Chairman of the Board and
Chief Executive Officer
Dome Petroleum Limited
Calgary, Alberta

H. Anthony Hampson‡
President and
Chief Executive Officer
of the Corporation
Toronto, Ontario

Gordon F. Hughes†
President and General Manager
Ocean Company Limited
Windsor, Nova Scotia

Douglas N. Kendall‡
Chairman
Enterprise Development Board
Toronto, Ontario

Murray B. Koffler†
Chairman of the Board
and Chief Executive Officer
Koffler Stores Limited
Willowdale, Ontario

Mrs. Mary Lamontagne*
Member, Board of Advisors
Centre of Bioethics, Clinical Research
Institute of Montreal
Montreal, Quebec

Sydney Maislin
Vice Chairman of the Board
and Chief Executive Officer
Maislin Industries Ltd.
Lasalle, Quebec

Hugh A. Martin
President
Western Construction and
Engineering Research Ltd.
Vancouver, British Columbia

W.C.Y. McGregor*
National President
Brotherhood of Railway, Airline
and Steamship Clerks
Montreal, Quebec

Maurice J. Moreau*
Executive Vice President and
Chief Operating Officer
Eldorado Nuclear Limited
Ottawa, Ontario

Frederick W. Sellers‡
Chairman
Spiroll Corporation Limited
Winnipeg, Manitoba

J.N. Turvey*
Chairman
Interprovincial Steel and
Pipe Corporation Ltd.
Vancouver, British Columbia

Dr. Catherine T. Wallace
Chairman
Maritime Provinces Higher Education
Commission
Fredericton, New Brunswick

Allan F. Waters*†
President
CHUM Limited
Toronto, Ontario

Marshall A. Cohen *(from Feb. 1, 1979)*
ex-officio
Deputy Minister of Industry,
Trade and Commerce
Ottawa, Ontario

Dr. William C. Hood‡
(from Feb. 1 to Aug. 31, 1979)
Dr. Grant L. Reuber‡
(from Sept. 1, 1979)
ex-officio
Deputy Minister of Finance
Ottawa, Ontario

Officers

A. John Ellis
Chairman of the Board

Pierre Côté
Vice Chairman of the Board

H. Anthony Hampson
President and Chief
Executive Officer

Serge Gouin
Executive Vice President

John B. Hague
Executive Vice President

Peter K. Powell
Executive Vice President,
Finance and Administration

Claude R. Marchand
Senior Vice President
and Secretary

Jerry W. Bliley
Vice President

James D. Ellis
Vice President

Nigel G.D. Gray
Vice President and General Counsel

Brian M. King
Vice President

Gerald T. McGoey
Vice President and Controller

James M. O'Reilly
Vice President and Treasurer

* Member of Audit Committee
† Member of Communications
Committee
‡ Member of Executive Committee

Petrosar Limited

Commenced commercial operations April 1, 1978

Financial Review	1979	1978 (9 months)
	(millions of dollars)	
Income Summary		
Revenues	$ 687.2	$ 401.1
Cost of sales	633.6	376.6
Depreciation, selling and administration expenses	16.2	21.7
Interest expense	9.0	6.0
Taxes, minority interest, other	11.3	(2.4)
Net income	17.1	(.8)
Cash flow	53.8	9.5
Balance Sheet Summary		
Working capital	$ 7.0	$ 3.9
Fixed assets (net)	574.6	587.5
Total assets	804.5	819.8
Shareholders' equity	620.2	646.9

Petrosar commenced commercial operations on April 1, 1978. Accordingly, results for 1978 reflect an operating period of three quarters compared with a full year in 1979.

Sales and Income

In 1979, total revenue increased by one third to $687.2 million, cash flow from operations totalled $54 million and net income after tax amounted to $17 million compared with a net loss of $800,000 in the previous year, primarily because of improved product margins and higher petrochemical production. After provision for dividends on Class A preference shares, the loss to common shareholders was $18.2 million compared with a loss of $25.1 million a year earlier.

Financial

At the start of 1979, Petrosar had 4,450,000 Class A preferred shares with a $100 par value outstanding to a consortium of Canadian chartered banks. During the year, $20 million par value of these shares were redeemed for cash while Polysar, DuPont and Union Carbide subscribed to an additional $11.0 million of Class B preference shares.

Capital Expenditures

A total of $6.9 million was spent for additions to and improvements of property and equipment compared with $13.3 million in 1978. The reduced capital expenditure was brought about by completion of all major construction work at the company. Capital expenditures in 1979 were made primarily for enhancing flexibility and reliability.

Outlook

In 1980, improved plant operations combined with continuing firm markets are expected to result in higher earnings and cash flow.

Over the next several years, Petrosar will face the combined challenges of improving the efficiency and dependability of its existing plant and the implementation of programs which will increase the product yields per barrel of crude oil input. Although the impact of these changes will not be felt during 1980, process modifications and new capital investments designed to increase the petrochemical yield should significantly enhance Petrosar's profitability in later years.

Polysar Limited

Financial Review	1979	1978	1977	1976	1975
			(millions of dollars)		
Income Summary					
Revenues	**$ 1066.9**	$ 807.3	$ 609.4	$ 488.9	$ 420.9
Cost of sales	**823.5**	671.9	513.7	413.2	357.0
Selling, administration and research	**72.8**	72.4	58.2	46.1	43.3
Interest expense	**31.5**	28.3	21.0	14.9	15.2
Taxes, minority interest, other	**65.0**	16.3	2.0	7.2	3.8
Net income	**74.1**	18.5	14.4	7.5	1.6
Cash flow	**141.0**	64.1	41.6	28.0	23.2
Balance Sheet Summary					
Working capital	**$ 250.5**	$ 200.8	$ 99.1	$ 77.8	$ 91.2
Fixed assets (net)	**243.9**	216.3	222.8	207.3	150.4
Total assets	**909.9**	766.1	646.4	530.5	415.5
Long-term debt	**203.1**	205.1	191.8	160.6	97.1
Shareholders' equity	**317.9**	262.3	255.9	211.4	197.8

Sales and Income

In 1980, Polysar's revenues increased by more than 30% and surpassed $1 billion for the first time. Net income increased by 300% to reach $74 million, despite foreign currency translation losses of $19.7 million compared with a translation gain of $8.6 million in 1978. Working capital increased by $49.7 million over the year to reach a level of $250.5 million at year-end, largely as a result of the cash generated from operations, which more than doubled to $141 million from $64.1 million in 1978. Shareholders' equity rose significantly.

Financial

Significantly higher short-term interest rates, together with a higher average level of investment in the businesses, caused financing costs to rise to $37.9 million in 1979 from $31.7 million in the previous year.

Capital Expenditures

Direct capital spending for additions to and improvements of property and equipment totalled $58.3 million compared with $37.9 million in 1978. The company's investment in Petrosar increased by $5.3 million in the form of subordinated preference shares, bringing the carrying value of its investment in Petrosar to $94.2 million at year-end.

Outlook

Polysar is now the leading Canadian-owned and -managed firm in the petrochemical industry. A strong market position together with its aggressive capital spending program could lead to at least a doubling of Polysar's sales, assets and profits during the next five years. To realize this potential, Polysar plans to invest approximately $1 billion in strengthening and expanding its businesses, especially in technologically-advanced synthetic rubbers where the company is a market leader. Particular emphasis will be placed on identification of emerging petrochemical opportunities in Western Canada.

During 1980, the company expects a softening in the demand for its products, with some decline in earnings as a result. However, Petrosar is expected to make a more substantial positive contribution to Polysar's operating results.

Texasgulf Inc.

Financial Review	1979	1978	1977	1976	1975
			(millions of U.S. dollars)		
Income Summary					
Revenues	**$ 801.6**	$ 608.9	$ 491.1	$ 490.6	$ 461.6
Operating costs and exploration	**544.4**	481.3	375.8	342.8	277.7
Selling, administration	**34.1**	24.9	24.0	25.8	16.1
Interest	**14.5**	35.0	27.0	27.0	14.0
Income taxes	**71.7**	17.6	18.0	34.2	60.1
Net income	**136.9**	50.1	46.3	60.8	93.7
Working capital provided from operations	**210.9**	107.2	84.8	113.1	175.9
Balance Sheet Summary					
Working capital	**$ 266.6**	$ 233.0	$ 249.8	$ 247.9	$ 180.4
Fixed assets (net)	**1,127.0**	1,031.4	997.5	888.6	750.3
Total assets	**1,648.1**	1,513.8	1,477.9	1,315.4	1,100.7
Long-term debt (less current maturities)	**351.2**	357.4	366.6	266.2	227.9
Shareholders' equity	**870.5**	766.4	752.1	750.2	576.8

(All figures are reported in U.S. dollars unless otherwise stated.)

Sales and Income

Sales for 1979 rose to $789.3 million compared with $602.3 million in 1978 and net income was up 173% to $136.9 million from $50.1 million the year earlier; CDC's share of these earnings was Cdn$45.8 million. The improvement in sales and earnings was equally good for chemicals and metals.

Operating income rose by 112.7% to $130.2 million in 1979 for Texasgulf Chemicals Company, by 103.4% to $109.2 million for Texasgulf Metals Company, and reached $1.4 million at Texasgulf Oil and Gas Company, which had recorded an operating loss of $0.4 million in 1978.

Operating costs increased in 1979, partly as a result of higher sales volumes but also because unit costs increased. Interest expense decreased to $14.5 million from $35.0 million the year earlier, in large measure due to capitalization of interest on construction programs in accordance with the recent FASB Statement No. 34 but also because all bank loans were repaid during the year. The effective rate of income taxes increased to 34.4% of pre-tax income in 1979 from the 1978 rate of 26.0%, the result of higher pre-tax income and the relationship of depletion and processing allowances to such income.

Financial

Texasgulf's financial ratios for 1979 improved over those of 1978. Total debt to total adjusted capitalization was about 29%, reduced from 35% in 1978. Coverage of fixed charges was 4.4 times, double the 1978 rate. Working capital amounted to $266.6 million at year-end and assets totalled $1.6 billion, an increase of $134.3 million. Stockholders' equity stood at $870.5 million, up by $104.1 million.

No new borrowing was required during the year and the excellent cash generation, as noted above, enabled the company to repay the bank loans of $53.5 million outstanding at the beginning of the year.

Outlook

In the early part of 1980, prices for Texasgulf's principal products continued the upward trend which prevailed throughout 1979 and markets remained firm. If these conditions prevail throughout the year, Texasgulf's average product prices and earnings should increase as a result.

The aggressive capital expenditure program which contributed to the company's significantly improved 1979 earnings will be maintained during the next several years, markedly expanding the production capabilities of its large, low-cost reserve base of metals, phosphates, soda ash, potash and oil and gas. This continued emphasis on expansion of production capacity is expected to contribute to future earnings growth.

CDC Oil & Gas Limited

(Acquired December, 1975)

Financial Review	1979	1978	1977	1976
		(millions of dollars)		
Income Summary				
Revenues	$ **51.3**	$ 43.2	$ 35.3	$ 26.5
Cost of sales	**20.1**	15.6	12.6	9.9
Administration	**2.5**	1.3	1.0	1.0
Interest expense	**9.5**	6.6	2.4	2.1
Taxes and other	**8.5**	7.9	7.1	4.7
Net income	**10.7**	11.8	12.2	8.7
Cash flow	**28.4**	25.6	25.4	18.3
Balance Sheet Summary				
Working capital	$ **13.5**	$ 3.1	$ (44.7)	$ 5.4
Fixed assets (net)	**200.0**	168.7	142.5	77.8
Total assets	**222.5**	180.3	151.9	86.1
Long-term debt	**82.8**	78.3	69.3	20.0
Shareholders' equity	**104.1**	72.8	65.5	57.8

Sales and Income

In 1979, higher revenues and cash flow were recorded. However, net income was slightly lower than the previous year as a result of higher expenses and income taxes. Revenues totalled $51.3 million compared with $43.2 million in 1978. Cash flow from operations rose to $28.4 million from $25.6 million a year earlier. And net income came to $10.7 million compared with $11.8 million in 1978.

Higher costs for labour and materials together with increased corporate activity and staff resulted in increased operating and administrative expenses of $13 million compared with $9.2 million in 1978. The charge for depreciation, depletion and amortization rose by $1.9 million to $9.6 million, reflecting both higher production levels and greater costs of finding new reserves relative to the cost of existing reserves. Interest expense of $9.5 million exceeded the 1978 level by $2.9 million because of higher interest rates and additional bank loans required to finance the year's capital programs. Higher non-deductible affiliated company losses and increased provincial royalties which are not deductible for federal income tax purposes caused the effective rate of income tax to rise to 44.4% from 40.2% in 1978.

Financial

Working capital stood at $13.5 million at year-end 1979, a $10.4 million increase over the year. Dividends paid to CDC during 1979 were $19.4 million and $25 million in advances from CDC were repaid. CDC subscribed to an additional $40 million in company equity. In early 1980, the company borrowed 50 million Swiss francs in the form of six-year notes and, with a Canadian bank, arranged credit facilities to supplement the financing of future growth.

Capital Expenditures

Capital expenditures during 1979 were $40.9 million, an increase of 21% over the $33.8 million spent for exploration and development activities during 1978. This amount was 1.44 times the company's cash flow and necessitated increased borrowing.

Outlook

Expanded production as well as higher prices for oil and gas could result in a cash flow increase of some 20% in 1980. Exploration and development expenditures, however, are expected to exceed $70 million compared with a 1979 level of $40 million. This planned expenditure is roughly two-and-a-half times the company's cash flow and will be financed by borrowings, the cost of which will result in 1980 earnings broadly similar to those earned in 1979.

Government policies, including market restrictions, price regulations and taxes have a strong influence on the financial performance and attitudes of crude oil and natural gas producers. Despite these uncertainties created by public policy and intergovernmental squabbles, however, the company's expanding reserve base should result in substantial increases in earnings in 1982 and beyond.

CDC Life Sciences Inc.

Financial Review	1979	1978	1977	1976	1975
			(millions of dollars)		
Income Summary					
Revenues	**$ 137.8**	$ 139.8	$ 109.2	$ 90.8	$ 83.6
Cost of sales	**63.4**	66.6	56.1	47.7	44.8
Selling, administration and research	**64.6**	60.4	45.2	38.4	34.8
Interest expense	**4.3**	6.2	4.4	3.8	3.6
Taxes, minority interest, other	**1.4**	2.5	4.8	.5	2.1
Net income	**4.1**	4.1	(1.3)	.4	(1.7)
Cash flow	**13.5**	10.7	5.7	3.7	1.4
Balance Sheet Summary					
Working capital	**$ 40.2**	$ 39.4	$ 13.1	$ 15.9	$ 8.3
Fixed assets (net)	**54.8**	51.0	40.1	35.8	33.8
Total assets	**154.2**	152.8	108.7	101.3	89.8
Long-term debt	**19.8**	18.0	16.1	16.2	14.5
Shareholders' investment	**45.2**	44.7	38.6	39.9	32.5

Although revenues declined by $2 million to $137.8 million, operating profit and cash flow for the year improved. However, despite a 40% increase in operating profit, the Corporation's decision to write off goodwill in Omnimedic resulted in the contribution to CDC remaining unchanged from 1978.

Connaught Laboratories

1979 sales of $41 million were unchanged from 1978 when a polio outbreak generated $3 million in sales of polio vaccine. However, this sales level was maintained in the face of difficult market conditions, including surplus supply of plasma products in the U.S., heavy price competition for the Canadian animal health products market from foreign producers and lower demand than had been anticipated for Era rabies vaccine in Brazil and Mexico. Assisted by strong demand for insulin, the hepatitis diagnostic kit and E. coli vaccine for use in calves, net operating income for the year rose by $1.4 million over 1978.

Bio-Research Laboratories

Equipping of expanded facilities continued in 1979. Although recruitment and training expenses for the enlarged staff resulted in a substantial loss during the year, the company's services have been well accepted and it enters 1980 with contracts in hand having a value of more than double 1979 sales.

Raylo Chemicals

1979 revenues from fine chemical manufacturing exceeded 1978 levels but were restrained by capacity limitations which will be resolved during 1980. Contract research revenues increased sharply. Net results were unchanged from 1978.

A/S Dumex

Political turmoil in the Middle East and import restrictions in Nigeria led to reduced sales in two of Dumex's major markets in 1979. In addition, EEC regulations made it more favourable for farmers to use their own surplus milk for feed rather than to sell it to processors like Dumex. Total revenues declined by 8% from 1978 as a result and net income was lower by $0.2 million.

Omnimedic

A lengthy labour dispute and severe price competition in the company's major market area brought about a loss even though expenses were well contained.

Outlook

In recent years, the life sciences companies have invested heavily in new production facilities and product development. In 1980, it is expected that these investments will begin to yield higher sales and profits. Connaught anticipates strong sales demand for its E. coli (calf scours) vaccine which became available in Canada late in 1979 and will be marketed in the United States by the latter half of 1980. Newly-acquired equity participation in Dominion Biologicals of Nova Scotia will provide Connaught with good expansion prospects in the blood diagnostics field. Bio-Research will experience a major

earnings turnaround now that heavy start-up costs have been absorbed. However, the rate of expansion will continue to depend on the availability of skilled scientific personnel. Significantly increased volumes at Raylo Chemicals should lead to higher earnings. Dumex can expect to benefit in 1980 from the inventory reductions which occurred in many markets during 1979. And, at Omnimedic, total sales should begin to grow again on the strength of intensified marketing programs and the introduction of a significant new product mid-way through the year.

Imasco-CDC Research Foundation

The Imasco-CDC Research Foundation, supported by joint contributions from Imasco and CDC, was formed during 1979 to promote research into the discovery and development of products, processes and devices for the prevention, treatment and cure of diseases in humans and animals. In contrast to much of the research activity in educational and scientific institutions, the Foundation emphasizes the discovery of new products for commercial production in Canada with domestic and international sales and distribution.

Administration of the Foundation is supervised by a four-man Board of Trustees appointed by Imasco and CDC. The Trustees award research and development grants on the basis of recommendations by an independent Scientific Advisory Committee consisting of a distinguished group of Canadian medical professionals and scientists.

CDC Data Systems Limited

(Commenced operations August 1978)

Financial Review	1979	1978 (5 months)
	(millions of dollars)	
Income Summary		
Revenues	**$ 154.6**	$ 44.6
Cost of sales	**84.0**	21.8
Selling, administration and research	**66.5**	19.2
Interest expense	**4.4**	1.1
Taxes, minority interest, other	**(1.9)**	1.2
Net income	**1.6**	1.3
Cash flow	**21.8**	16.2
Balance Sheet Summary		
Working capital	**$ 38.0**	$ 20.7
Fixed assets (net)	**15.6**	9.1
Total assets	**180.5**	128.4
Long-term debt	**18.8**	17.7
Shareholders' investment	**39.3**	40.6

AES Data Ltd.

AES increased revenues by more than 75%. However, manufacturing margins declined slightly during the year because of the C-20 product introduction and the increased costs of semiconductor components brought about by very tight market conditions. Marketing and administration costs were also higher as a percentage of sales, in keeping with the launching of the AES product line which promises to reinforce the company's excellent market position. Consequently, it is well positioned for future earnings.

Working capital at year-end had increased to $21.5 million from $9.4 million in 1978 and total assets grew to $109.7 million from $69.7 million.

Ventek

Ventek maintained its record of strong growth in revenues, increasing sales by 27% to $29 million from $22 million in 1978 and earning a satisfying return on investment. Working capital at year-end stood at $5.7 million and total assets had reached $15.0 million.

Outlook

The strong market network built by AES over past years will result in continued vigorous growth in 1980 and beyond with profit margins rising markedly. Sustained emphasis on research and technical advances ensure that AES will continue as a world leader in electronic office equipment.

Ventek should maintain its market expansion and generate substantially higher cash flow. Investment in development of a new product line has been budgeted for 1980.

Consolidated Financial Statements

Year Ended December 31, 1979

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation and its subsidiaries is presented to assist the reader of the financial statements.

Principles of Consolidation

The consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies, which are listed in Note 11.

Foreign Exchange

Non-Canadian current assets and liabilities are translated at rates of exchange in effect on December 31, all other assets, and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred, and income and expenses, except depreciation, depletion and amortization, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Short-term Investments

Short-term investments are valued at cost which approximates market value.

Inventories

Inventories are valued at the lower of cost and realizable value.

Long-term Investments

The Corporation accounts for investments in companies over which it has significant influence on an equity basis. Other long-term investments are accounted for by the cost method.

Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of acquiring properties, exploring for and developing oil and gas and related reserves are capitalized in various cost centres. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities.

Depreciation, Depletion and Amortization

Depreciation of plant and equipment other than that relating to petroleum and natural gas properties is based on the estimated useful life of the assets from commencement of production and is calculated on the straight-line or diminishing balance method as considered most appropriate.

Depreciation, depletion and amortization of producing oil and gas properties is provided by the unit-of-production method based on the estimated proven recoverable reserves of each cost centre as determined by company engineers. Costs of non-producing properties are being amortized on a straight-line basis over the anticipated period of exploration for each cost centre. If exploration proves to be successful, amortization is suspended and the unamortized balance is depleted on the unit-of-production basis.

Pre-production Expenditures

Pre-production expenditures incurred in connection with major new production facilities are deferred and amortized from commencement of production on the straight-line basis over a period generally not exceeding ten years.

Goodwill

Goodwill arising from acquisitions to the end of 1973 is recorded as an asset without amortization. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written down.

Income Taxes

Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation does not give recognition to the potential tax benefit of losses until those benefits are realized. Recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes.

Consolidated Balance Sheet

Assets

	December 31 1979	1978
	(thousands of dollars)	
Current Assets		
Cash	$ 14,100	$ 12,386
Short-term investments	196,483	276,866
Accounts receivable	392,033	318,219
Inventories (note 1)	395,347	295,469
Other current assets	8,125	23,607
	1,006,088	926,547
Long-Term Investments (note 2)	500,993	413,429
Fixed Assets (note 3)	1,121,600	1,067,481
Other Assets (note 4)	139,264	130,381
	$2,767,945	$2,537,838

Liabilities

	1979	1978
Current Liabilities		
Short-term loans	$ 233,836	$ 253,693
Accounts payable and accrued liabilities	296,601	240,080
Dividends payable	4,333	4,333
Income and other taxes payable	7,099	7,353
Long-term debt due within one year	33,534	8,490
	575,403	513,949
Long-Term Debt (note 5)	539,840	500,511
Deferred Income Taxes	93,267	46,804
Interests of Minority Shareholders (note 6)	734,428	745,690
	1,942,938	1,806,954

Shareholders' Equity

	1979	1978
Capital Stock (note 7)	566,810	566,810
Retained Earnings	258,197	164,074
	825,007	730,884
	$2,767,945	$2,537,838

Approved on behalf of the Board

H.A. Hampson, Director

Allan F. Waters, Director

Consolidated Statement of Income

	Year Ended December 31 1979	1978
	(thousands of dollars)	
Revenue (note 8)	**$2,014,912**	$1,305,892
Expenses		
Cost of sales	**1,532,560**	1,030,142
Selling, administration and research	**226,581**	164,949
Interest on long-term debt	**46,742**	35,732
Other interest	**19,519**	16,731
	1,825,402	1,247,554
	189,510	58,338
Equity in earnings of other companies	**42,575**	13,434
Income before income taxes and other items	**232,085**	71,772
Translation (gains) losses	**18,739**	(10,455)
Income taxes	**59,763**	19,635
Minority interest	**40,568**	26,179
	119,070	35,359
Net income	**$ 113,015**	$ 36,413
Earnings per common share after preferred share dividends	**$3.08**	$0.62
Fully diluted earnings per common share	**$2.23**	$0.64

Consolidated Statement of Retained Earnings

	Year Ended December 31 1979	1978
	(thousands of dollars)	
Retained earnings at beginning of year	**$ 164,074**	$ 146,553
Net income	**113,015**	36,413
	277,089	182,966
Dividends on preferred shares	**17,332**	17,332
Amortization of cost of preferred share issues	**1,560**	1,560
	18,892	18,892
Retained earnings at end of year	**$ 258,197**	$ 164,074

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1979	1978
	(thousands of dollars)	
Working capital derived from		
Operations		
Net income	$ 113,015	$ 36,413
Items not involving working capital		
Depreciation and depletion	65,110	52,580
Amortization	13,937	5,766
Decrease (increase) in equity in other companies	(18,673)	3,231
Deferred income taxes	46,464	9,571
Minority interest	40,568	26,179
	260,421	133,740
Issues of long-term debt	114,442	252,151
Net investment by minority shareholders	—	602,170
	$ 374,863	$ 988,061

Working capital applied to		
Investment in petroleum and natural gas properties	40,813	33,418
Net additions to other fixed assets	78,416	60,371
Investments in other companies	68,891	18,654
Dividends on preferred shares	17,332	17,332
Reduction of long-term debt	75,113	438,962
Additions to other assets	24,380	46,557
Dividends to minority shareholders	51,831	29,591
	356,776	644,885
Increase in working capital	18,087	343,176
Working capital at beginning of year	412,598	69,422
Working capital at end of year	$ 430,685	$412,598

Notes to Consolidated Financial Statements

Year Ended December 31, 1979

1. Inventories

	1979	1978
	(thousands of dollars)	
Finished goods	**$197,378**	$146,322
Raw materials and work in progress	**168,304**	113,843
Operating and maintenance supplies	**29,665**	35,304
	$395,347	$295,469

2. Long-term investments

	1979	1978
	(thousands of dollars)	
Mining (Texasgulf Inc.)	**$449,499**	$370,165
Venture and expansion capital companies	**26,480**	19,736
Life Sciences group investments	**4,098**	4,627
Petrochemical group investments	**20,916**	18,901
	$500,993	$413,429

(i) The Corporation, through a wholly-owned subsidiary, owns 10,660,475 (33.4%) of the outstanding common shares of Texasgulf and 1,225,200 (40.8%) of the outstanding $3.00 convertible cumulative preferred Series A shares of Texasgulf. If all outstanding Texasgulf preferred shares were converted to common shares, the Corporation's ownership would be 34.4%. The quoted market value of the Corporation's shares of Texasgulf at December 31, 1979 was $519.8 million which because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(ii) During the year the Corporation acquired 225,200 preferred series A shares and 1,181,930 common shares of Texasgulf for cash consideration of $50.8 million. The excess of cost of the investment in the common shares of Texasgulf over the Corporation's equity in the net book value of Texasgulf at dates of acquisition has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis over a period of forty years.

The Corporation's equity in the reported earnings of Texasgulf which is included in "Equity in earnings of other companies" has been computed as follows:

	1979	1978
	(thousands of dollars)	
Share of net income of Texasgulf	**$ 50,009**	$ 17,273
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf	**4,200**	3,869
	$ 45,809	$ 13,404

3. Fixed assets

	1979			1978
	(thousands of dollars)			
	Cost	Accumulated depreciation and depletion	Net	Net
Land, plant and equipment	**$1,246,844**	**$356,816**	**$ 890,028**	$ 864,821
Petroleum and natural gas properties	**269,743**	**38,171**	**231,572**	202,660
	$1,516,587	**$394,987**	**$1,121,600**	$1,067,481

4. Other assets

	1979	1978
	(thousands of dollars)	
Long-term receivables	**$ 15,855**	$ 17,128
Pre-production expenditures	**52,772**	58,233
Goodwill	**64,390**	46,328
Cost of long-term financings	**6,247**	8,692
	$139,264	$130,381

During the next five years, pre-production expenditures and goodwill are expected to be amortized to income at the rate of $15.5 million annually.

As part of the acquisition in 1978 of AES Data Ltd., the Corporation through its wholly owned subsidiary CDC Data Systems Limited was obligated to make payments conditional upon future earnings. The final additional purchase price to be paid in 1980 is $21.7 million and has been allocated to goodwill.

5. Long-term debt

	1979	1978
	(thousands of dollars)	
Canada Development Corporation		
Income Debentures, due 1984 (United States dollars)	$ 61,350	$ 61,350
4.375% Notes, due 1985 (Swiss francs)	153,988	153,988
	215,338	215,338
CDC Data Systems Limited		
11.75% mortgage due 1986, secured	1,398	—
Floating rate bank loan	15,000	—
Floating rate term loan repayable 1979	—	1,175
Floating rate term loans repayable 1979 through 1981 (United States dollars)	3,964	5,774
Floating rate lease finance loan due 1982	2,106	1,025
Other	1,490	1,139
	23,958	9,113
CDC Life Sciences Inc.		
8% mortgages, repayable 1979 through 1997	4,642	4,814
3.875% bank loan, due 1986 (Swiss francs)	8,527	—
Floating rate term loans, due 1980	2,368	2,138
Floating rate term loan, repayable 1979 through 1986 (United States dollars)	—	4,870
9.25% mortgage, repayable 1979 through 1985 (United States dollars)	2,933	3,034
6% to 10% mortgages, repayable 1979 through 1985 (Danish kroner)	2,458	2,771
Other	2,203	1,148
	23,131	18,775
CDC Oil & Gas Limited		
Floating rate bank loan, subsequently secured	65,604	—
Floating rate bank loan secured by properties (United States dollars)	11,848	—
Floating rate term loans secured by properties, repayable 1980 through 1988 (United States dollars)	—	53,316
Customer prepayments	5,356	2,142
	82,808	55,458
Polysar Limited		
7.5% Sinking fund debentures, due 1979 through 1987	7,177	9,143
9% Sinking fund debentures, due 1979 through 1993	30,641	33,411
Other	—	2,600
In United States dollars		
10% Debentures, due 1982	29,763	30,192
9.5% Debentures, due 1986	50,613	50,613
Floating rate term loans, repayable 1980 through 1987	53,891	53,735
4.75% to 13.25% notes and mortgages, repayable 1979 through 2003	6,872	5,706
Capitalized lease obligations, expiring 1979 through 1985	6,958	7,768
In other currencies		
7.5% minimum rate, due 1980 (Swiss francs)	18,335	6,244
2.5% to 9%, repayable 1979 through 2004 (German marks)	2,893	3,655
9.25% repayable in 1979 and 1980 (French francs)	436	727
9% mortgage, repayable 1979 through 1981 (Belgian francs)	338	463
Capitalized lease obligations, expiring 1979 through 1992 (Belgian francs)	745	1,180
Capitalized lease obligation, expiring 1980 through 1988	2,383	—
Other	17,094	4,880
	228,139	210,317
	573,374	509,001
Less principal due within one year	33,534	8,490
	$539,840	$500,511

Long-term debt payable in foreign currency would increase by $61.0 million if converted into Canadian dollars on the basis of exchange rates at December 31, 1979.

Sinking fund requirements and the long-term debt due in each of the next five years are as follows:
1980 – $33.5 million; 1981 – $10.5 million; 1982 – $40.1 million; 1983 – $16.4 million; 1984 – $77.6 million.

6. Interests of minority shareholders

	1979	1978
	(thousands of dollars)	
Preferred equity		
Petrosar		
Class A	$425,000	$445,000
Class B	22,880	17,160
Class C	69,629	69,629
Polysar		
First Preferred	50,000	50,000
Polysar Holdings (a subsidiary)	85,000	85,000
CDC Life Sciences		
Connaught Laboratories (a subsidiary)	30,000	30,000
CDC Data Systems	35,019	19,327
	717,528	716,116
Common equity	16,900	29,574
	$734,428	$745,690

(i) Petrosar's Class A redeemable preference shares bear a cumulative dividend of 1.35% plus 52% of the Canadian bank prime rate. These shares are redeemable through 1987 as follows:
1980 — $35 million; 1981 — $40 million; 1982 — $50 million; 1983 through 1987 — $60 million per annum.

Petrosar's Class B preference shares are redeemable only after dividends have been paid aggregating $100 per share plus 60 cents for each month that the shares have been outstanding.

The Class B shares are issued pursuant to an agreement whereby certain shareholders, including Polysar, have agreed to provide Petrosar with sufficient funds to enable it to pay the dividend on the Class A preference share if Petrosar is unable to pay such dividends and to purchase these shares if not redeemed as scheduled. Polysar's portion of such obligation is 48%. The Corporation has guaranteed certain of Polysar's obligations under the financing arrangements, the amount of which may vary but is limited to a maximum of $30 million.

Petrosar's Class C redeemable preference shares bear a cumulative dividend of 10.5% beginning February 1, 1981. These shares were issued to certain shareholders, including Polysar, upon cancellation of their Subordinated Debentures and accrued interest thereon.

(ii) Polysar has outstanding $50 million 8.4% cumulative redeemable first preferred shares. Polysar is required during the 30-day period ending March 1, 1982, to invite tenders at $25 per share from the holders of these shares and to purchase on April 1, 1982 the shares so tendered.

Polysar Holdings' $85 million redeemable preferred shares bear a cumulative dividend of 1.25% plus one-half of the Canadian bank prime rate. Redemptions are required to be made in equal annual amounts from 1986 through 1988 inclusive.

(iii) Connaught Laboratories' $30 million redeemable preferred shares bear a cumulative dividend of 1% plus one-half of the Canadian bank prime rate. Redemptions are required to be made in equal amounts from 1981 through 1987 inclusive.

(iv) CDC Data Systems' $19.3 million preferred shares Series 1 and 2 were redeemed in 1979 and the $35.0 million preferred shares Series 3 and 4 are redeemable in 1980.

7. Capital stock

(i) Authorized

Preferred

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common

$200,000,000 shares without par value

	1979	1978
	(thousands of dollars)	
Issued		
Preferred		
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	$100,000	$100,000
1,447,678 8% cumulative, redeemable, convertible, voting Class B shares of $100 each (1978, 1,447,802 shares)	144,768	144,780
Common		
32,161,336 shares (1978, 30,712,170 shares)	322,042	322,030
	$566,810	$566,810

The Class A preferred shares are redeemable on or after March 5, 1981 at the option of either the Corporation or any holder at par plus all accrued and unpaid dividends.

The Class B preferred shares are redeemable at the option of the holder from October 2, 1980 through December 31, 1980 and from October 2, 1985 through October 1, 1986, at par plus all accrued and unpaid dividends. They are also redeemable at the option of the Corporation, commencing October 2, 1980 at a price of $105 per share, reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share, plus in all cases, accrued and unpaid dividends.

Each Class B preferred share carries the right to receive one further bonus common share, which is to be issued to each holder of record on October 1, 1985, subject to an earlier record date being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common share.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of common shares are entitled to one vote per share.

(ii) Issued during the year
On October 26, the Corporation issued 1,447,690 common shares as a result of an early distribution of the first bonus common share. In addition, 1,476 common shares were issued upon conversion of Class B preferred shares.

(iii) Common shares reserved
At December 31, 1979, 14,476,780 common shares were reserved for issue upon the conversion of the outstanding Class B preferred shares and 1,447,678 common shares were reserved for issue pursuant to bonus common share rights. A further 2,000,000 common shares were reserved for issue under the Shareholder Dividend Reinvestment and Share Purchase Plan.

8. Revenue

The revenue of the Corporation is derived from:

	1979	1978
	(thousands of dollars)	
Sales of products and services		
Petrochemicals	**$1,629,040**	$1,062,762
Life Sciences	**132,268**	132,270
Oil and gas	**51,043**	42,967
Electronics	**153,477**	44,549
	1,965,828	1,282,548
Interest income	**28,359**	13,042
Other income	**20,725**	10,302
	$2,014,912	$1,305,892

9. Pension plans

Current service costs of pension plans are funded and charged to operations as they accrue. At December 31, 1979 the unfunded liabilities of the pension plans are estimated at approximately $7.1 million. These liabilities are expected to be funded and charged to operations at an annual rate of approximately $1.0 million.

10. Remuneration of Directors and Officers

	1979	1978
Number of directors	**20**	20
Number of officers	**14**	9
Number of officers who are also directors	**4**	3
Aggregate remuneration of directors as directors of the Corporation	**$127,525**	$109,000
Aggregate remuneration of directors as directors of subsidiary companies	**$ 31,017**	$ 13,750
Aggregate remuneration of officers as officers of the Corporation	**$937,610**	$541,928

Officers of the Corporation received no remuneration from subsidiary companies.

11. Consolidated subsidiary companies

CDC Energy & Metals Limited
CDC Nederland B.V.

CDC Data Systems Limited
AES Data Ltd.
AES A.G.
AES GmbH.
AES Nederland B.V.
AES Schweiz A.G.
AES Wordplex Ltd.
AES Wordplex Europe Ltd.
Wordplex Corporation
Wordplex Leasing Ltd.

CDC Life Sciences Inc.
Bio-Research Laboratories Ltd.
Canada Pharmacal Co. (1975) Limited
The Canada Serum Company Limited
Comex Nederland B.V.
Comprator A.G.
Connaught Biologics Limited
Connaught Laboratories Inc.
Connaught Laboratories Limited
Connaught Laboratories (Export) Inc.
Connaught Laboratories (Ireland) Limited
Connlab do Brasil Industria e Comercio Limitada
OY Dumex AB
Dumex B.V.
A/S Dumex, Denmark
Dumex GmbH
Dumex Lakemedel AB
A/S Dumex, Norway
Dumex (Pty.) Ltd.
Dumex SPA
Laboratories Nordic Inc.
Maltex APS
Omnimedic Inc.
R.&L. Molecular Research Ltd.
Raylo Chemicals Limited
Steele Chemicals Co. Ltd.

CDC Oil & Gas Limited
CDC Producing Company
CDC Oil & Gas International B.V.
CDC Oil & Gas (U.K.) Limited
CDC Minerals Limited

CDC Ventures Inc.

Petrosar Limited

Polysar Limited

Bellaplast GmbH
Bellaplast Nederland B.V.
Bellaplast (U.K.) Ltd.
Kayson-Mammoth Limited
Komfortplast GmbH
Nippon Polymers Company Limited
Polymer Services Inc.
Polysar Australia Pty. Ltd.
Polysar Belgium N.V.
Polysar Cayman Limited
Polysar de Venezuela S.A.
Polysar Deutschland GmbH
Polysar do Brasil Produtos Quimicos Ltda.
Polysar Europa S.A.
Polysar France S.A.
Polysar GmbH
Polysar Handelmaatschappij B.V.
Polysar Holdings Limited
Polysar Incorporated
Polysar International S.A.
Polysar Italiana S.P.A.
Polysar Latex, Inc.
Polysar Nederland B.V.
Polysar Resins, Inc.
Polysar Rubber Services, Inc.
Polysar Skandinaviska A.B.
Polysar Technical Service Centre N.V.
Polysar (U.K.) Limited
Société Française Polysar
Synthetic Elastomers Development S.A.

Ventek Limited

Auditors' Report

To the Shareholders of Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 14, 1980

THORNE RIDDELL
Chartered Accountants

Glossary of Financial Terms

Amortization
Spreading a large expenditure proportionately over a fixed period of time.

Asset
Anything of value owned by a company or individual.

Balance Sheet
Statement of the financial worth of a business or organization which is divided into three parts — assets, liabilities and ownership (equity).

Capital
1. What is owned by a company or individual minus what is owed at a specific time. 2. Total investments of owners (shareholders) of a business at a given time, which may be calculated by subtracting from the total assets all the liabilities of those other than the owners.

Capital Asset
Assets owned or held by a business of either a tangible or intangible nature which are expected to be used or held over several fiscal periods (not including stock for sale).

Capital expenditure†
An expenditure to acquire or add to a capital asset; an expenditure yielding enduring benefits.

Cash flow†
The figure resulting from adding back to income items that do not affect working capital, such as depreciation and amortization. Used chiefly by financial analysts and not to be confused with "cash flow" as used in the cash flow statement.

Consolidation
A parent plus one or more subsidiary companies which present financial reports for the group as a whole, not as separate entities.

Corporation
Legal entity or corporate person with authority to operate under provincial or federal statutes, usually formed to make a profit. Owners are liable for the debts only up to the amount of their investment.

Current liability†
A liability whose regular and ordinary liquidation is expected to occur within one year or within the normal operating cycle where that is longer than a year. A liability otherwise classified as current but for which provision has been made for payment from other than current resources should be excluded.

Deferred income taxes†
The accumulated amounts by which income taxes charged in the accounts have been increased (accumulated tax allocation credit) or decreased (accumulated tax allocation debit) as a result of timing differences.

Depletion
Gradual using up or consumption of a natural resource, recorded in the accounts.

Depreciation
Gradual reduction of the cost of a fixed asset and gradual application of this cost to the expense of a business over the useful life of the asset.

Dividend
Distribution to shareholders of a portion of the profits of the company.

Dividend coverage ratio†
The ratio of the net income to dividends.

Earnings per share†
The portion of income for a period attributable to a share of issued capital of a corporation. The calculation of earnings per share is relevant only with respect to shares whose rights to participate in the earnings have no upper limit.

Equity
1. A right or claim to the assets of a company. Both the owners and creditors have equity in a business. 2. Amount that a business is worth beyond what it owes.

Expenditure
1. Spending. 2. Incurring a liability.

Fixed Assets
Property or equipment of a tangible nature owned by a business for use in its operations (not for sale), which is expected to have a useful life of several fiscal periods.

Income
Difference between total revenue and total expense of a business for a given period.

Inventory
Detailed list of items and their values owned at a specific point in time.

Investment
Funds committed to something tangible or intangible in order to receive a return either in income or use.

Liability
1. An amount owed to another, not necessarily due to be paid immediately. 2. An obligation to remit money or services at a future date.

Long-term liability†
A liability which, in the ordinary course of business, will not be liquidated within one year or within the normal operating cycle where that is longer than a year.

Minority interest†
1. The equity of the shareholders who do not hold the controlling interest in a controlled company. 2. In consolidated financial statements, the equity in subsidiaries that is applicable to shares that are not owned by the parent company or by a consolidated subsidiary company.

Profit
Total revenue less total expenditures for a period of time calculated in accordance with generally accepted accounting principles.

Ratio
Relative size, expressed as the number of times one quantity is contained in another.

Retained Earnings
Portion of a company's aggregate income since incorporation which remains invested in the operation after distribution of dividends to shareholders.

Revenue
Inflow of cash or receivables from customers or clients in return for goods, services, or interest on investments.

Subsidiary
Company which is controlled by another company usually through its ownership of the majority of shares.

Working capital†
The excess of current assets over current liabilities.

Write-Off
(verb) To transfer an item which was considered an asset to an expense account; for example, to transfer an uncollectible account receivable to bad debts expense.
(noun) The item or amount reduced or cancelled.

CDC Consolidated Financial Summary

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Revenue					
Sales of products and services	**$1,965,828**	$1,282,548	$ 708,798	$ 564,226	$ 469,605
Other income	**49,084**	23,344	15,278	13,755	13,055
	2,014,912	1,305,892	724,076	577,981	482,660
Expenses					
Cost of sales	**1,532,560**	1,030,142	549,484	441,353	373,170
Selling, administration and research	**226,581**	164,949	107,825	88,346	81,002
Interest on long-term debt	**46,742**	35,732	19,113	10,098	10,255
Other interest	**19,519**	16,731	10,056	8,533	7,789
	1,825,402	1,247,554	686,478	548,330	472,216
	189,510	58,338	37,598	29,651	10,444
Equity in earnings of other companies	**42,575**	13,434	10,897	12,116	25,321
Income before income taxes and other items	**232,085**	71,772	48,495	41,767	35,765
Translation (gains) losses	**18,739**	(10,455)	(6,825)	4,428	(344)
Income taxes	**59,763**	19,635	17,737	11,349	8,358
Minority interest in income of subsidiary companies	**40,568**	26,179	6,006	4,610	3,285
	119,070	35,359	16,918	20,387	11,299
	113,015	36,413	31,577	21,380	24,466
Unusual items	—	—	7,773	429	1,525
Income before extraordinary items	**113,015**	36,413	23,804	20,951	22,941
Extraordinary items	—	—	—	749	—
Net income	**$ 113,015**	$ 36,413	$ 23,804	$ 21,700	$ 22,941

	1979	1978	1977	1976	1975
Earnings per common share			*(dollars)*		
after preferred share dividends					
Income before extraordinary item	**$ 3.08**	$ 0.62	$ 0.21	$ 0.12	$ 0.47
Extraordinary item	—	—	—	$ 0.02	—
Net income	**$ 3.08**	$ 0.62	$ 0.21	$ 0.14	$ 0.47

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Cash flow from operations	$ **260,421**	$ 133,740	$ 90,346	$ 62,356	$ 38,730
Other sources of funds	**114,442**	854,321	271,139	272,383	327,965
	$ **374,863**	$ 988,061	$ 361,485	$ 334,739	$ 366,695

Investments	$ **68,891**	$ 18,654	$ 7,404	$ 47,621	$ 107,821
Capital expenditures	**119,229**	93,789	301,137	291,488	192,658
Dividends on Class A preferred shares	**5,750**	5,750	5,750	5,750	5,750
Dividends on Class B preferred shares	**11,582**	11,582	11,582	11,546	2,842
Dividends to minority shareholders	**51,831**	29,591	4,335	4,322	3,206
Other uses of funds	**99,493**	485,519	51,314	41,693	25,669
Changes in working capital	**18,087**	343,176	(20,037)	(67,681)	28,749
	$ **374,863**	$ 988,061	$ 361,485	$ 334,739	$ 366,695

Working capital	$ **430,685**	$ 412,598	$ 69,422	$ 89,459	$ 157,140
Working capital ratio	**1.7:1**	1.8:1	1.1:1	1.3:1	1.7:1
Fixed assets (net)	**1,121,600**	1,067,481	1,026,272	764,645	502,792
Equity investments	**500,993**	413,429	398,006	399,665	350,104
Long-term debt	**539,840**	500,511	687,322	471,850	253,703
Debt/equity ratio	**0.7:1**	0.7:1	1.0:1	0.7:1	0.4:1
Deferred taxes	**93,267**	46,804	37,233	28,427	21,492
Preferred equity	**244,768**	244,780	244,780	244,781	242,534
Common equity	**580,239**	486,104	468,583	463,668	460,823
Return on common equity	**17.9%**	4.0%	1.4%	1.1%	3.8%
Total assets	**2,767,945**	2,537,838	2,066,086	1,586,869	1,273,060
Common shares outstanding at year-end	**32,161,336**	30,712,170	30,712,158	30,712,038	30,712,038

CDC Shares on the Stock Market

Two classes of CDC shares — common shares and Class B convertible voting preferred shares — are publicly traded on all Canadian stock exchanges.

Common Shares
(Ticker symbol: CDC)

In the last quarter of 1979, CDC's Class B preferred shareholders received a bonus of one common share for each Class B preferred share held. This common share distribution together with conversion of some Class B preferred shares into common shares raised the number of outstanding CDC common shares in December, 1979 to 32,161,336 of which 1,449,236 are held by 14,258 Canadian citizens or residents according to the following distribution:

Location	Shareholders Number	Shareholders %	Shares Number	Shares %
British Columbia	2,245	15.7	144,938	10.0
Alberta	1,186	8.3	70,319	4.9
Saskatchewan	614	4.3	25,538	1.8
Manitoba	490	3.4	42,780	3.0
Ontario	7,576	53.5	913,682	63.0
Quebec	1,226	8.6	210,781	14.5
New Brunswick	330	2.3	13,569	0.9
Nova Scotia	393	2.7	21,085	1.5
Prince Edward Island	69	0.5	2,456	0.2
Newfoundland	55	0.3	2,121	0.1
Territories	17	0.1	489	—
Outside Canada	57	0.3	1,478	0.1
Total	14,258	100.0	1,449,236	100.0

This shareholding is broken down by size as follows:

Number of Shares Owned	Number of Shareholders	%
1- 49	10,276	72.4
50- 99	1,966	13.7
100-199	1,345	9.4
200-299	340	2.3
300-399	77	0.5
400-499	35	0.2
Over 500	219	1.5
Total	14,258	100.0

In addition to the above-noted privately-held common shares, the Government of Canada owns 30,711,990 common shares, or 95.5% of the total common shares outstanding. This holding is equivalent to 65.8% of the voting rights at shareholder meetings.

Trading History, Dividends and Other Information

CDC common shares were listed for public trading on all Canadian exchanges in the last quarter of 1979. During that quarter, 170,824 shares were traded at prices between 7⅝ and the year-end closing price of 9¾. In 1980, a further 876,383 shares were traded up to March 14th at prices ranging between 9⅛ and 15⅞, with the last trade on that day being at 13¼. CDC has not paid dividends on its common shares since their issuance. National Trust Company, Limited is the Transfer Agent and Registrar for CDC common shares.

Class B Preferred Shares
(Ticker symbol: CDC Pr B)

1,447,678 Class B convertible preferred shares, each carrying ten voting rights at shareholder meetings, were outstanding at year-end 1979. The distribution of Class B preferred shareholders by province does not vary significantly from the distribution for common shares. During the year, 351,750 Class B preferred shares were traded on the stock exchanges with prices on the Toronto Stock Exchange fluctuating as follows:

	High	Low	Close
4th quarter 1979	138	102	122
3rd quarter 1979	131	113	130
2nd quarter 1979	114	110	113
1st quarter 1979	113	104¾	113
Full Year 1978	109	99¾	107¾

In 1980, 207,765 Class B preferred shares had been traded as of March 14th at prices ranging between 121½ and 170 with the last trade on that day being at 145½.

Dividend and Other Information

A dividend of $2.00 per Class B preferred share is payable quarterly on the first of January, April, July and October. Each Class B share carries the right to receive one bonus common share to be distributed to the holder of record on October 1, 1985, subject to an earlier record date being fixed by the Board of Directors. Each Class B share may be converted at any time at the holder's option into ten common shares; upon conversion, the holder receives immediate delivery of the bonus common share. National Trust Company, Limited is the Corporation's Transfer Agent and Registrar for Class B preferred shares.

Class B preferred shares are redeemable at the option of the holder at the original issue price of $100 each, during two

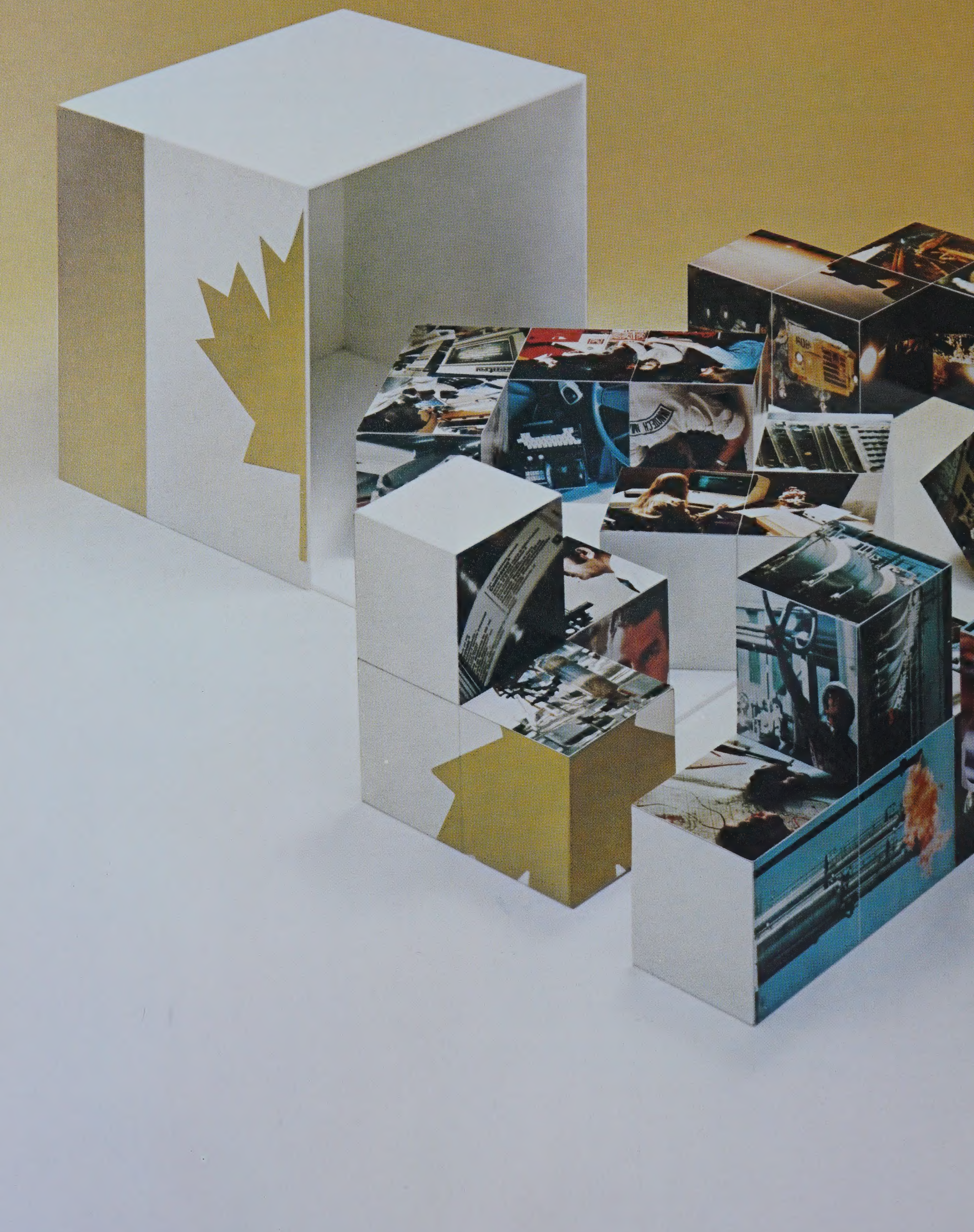
periods: October 2, 1980 through December 31, 1980 and October 2, 1985 through October 1, 1986. Furthermore, Class B preferred shares are redeemable at the option of CDC, commencing October 2, 1980 at a price of $105 per share reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share.

Dividend Reinvestment Plans

CDC operates two dividend reinvestment plans for the convenience of its shareholders. Under the Common Share Dividend Reinvestment Plan, introduced early in 1980, Class B shareholders may use their dividends to purchase additional common shares at 95% of their average market value during the five trading days preceding the purchase. In addition, common and preferred shareholders may make cash contributions of up to $3,000 per calendar quarter for the purchase of common shares at average market value. These common shares are purchased from treasury and there are no brokerage fees or service charges in either case. The Preferred Share Dividend Reinvestment Plan permits shareholders to purchase additional Class B preferred shares, either through reinvestment of their Class B dividends or through voluntary cash contributions; inasmuch as these shares are purchased on the market, brokerage and service charges are paid by participating shareholders. These plans have been well received by CDC's shareholders, with 18.4% of all shareholders participating in the plans at year-end. Details on either plan are available from:

The Secretary,
Canada Development Corporation,
2272 Granville Square,
200 Granville Street,
Vancouver, British Columbia V6C 1S4

Canadians working togethe



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